

Prime Minutes ④

This brings together some
interesting ideas and figures.

Mr. Tumball

AT
12/4

CB1

LORD COCKFIELD

I understand from your office that you
would like some arguments and facts on
the question of the wider dispersion of
wealth and freedom for a speech after Easter.

I also understand that you would like this
in brief form rather than in speech form.

I attach some comments which may be
helpful.



JOHN REDWOOD

Policy Unit

11 April 1984

WIDER OWNERSHIP

The personal sectors wealth-holdings as at September 1983 were:

	£bn
Insurance and pension fund investments	<u>175</u>
Building Society shares and deposits	<u>75</u>
Money	<u>65</u>
Company Securities	55
National Savings and Gilts	<u>45</u>
Others	<u>40</u>
TOTAL £billions	<u><u>455</u></u>

Taking away the borrowings of £50 billion leave net assets of £405 billion.

In addition over 60% of UK householders are home-owners. At the last count in 1982 the value of homes owned by private individuals was £350 billion. Against this mortgage debt by 1983 amounted to some £90 billion, leaving a net asset value for all homes of over £260 billions. This figure is probably approaching £300 billion at today's values.

Why is the private ownership of property important to a free society?

Property ownership conveys rights to people.

The home-owner has freedoms which council tenants do not enjoy. They can move anywhere in the country by selling their house and buying a new one, whereas the council tenant finds it difficult to exchange his home for another one in a new area, if at all. The home-owner has the right - subject to planning controls - to improve, renovate, re-design, paint and alter his house as he sees fit. The council tenant has practically no rights to do this. The home-owner can borrow against his assets and use the money for other purposes. The council tenant has to go on paying rent in perpetuity. The home-owner has rights over his land which can be upheld in a court of law and

which make every man's home his castle. An owner cannot be evicted (unless the state uses CPO powers) and he has a right to be consulted about planning and other issues affecting his street and his immediate environment.

The owner of a business or a shareholder also has rights which an ordinary employee or customer does not have. True employee involvement in company affairs comes through share ownership and not through the creation of talking shops where managers can meet men and discuss trivia in a formalised and stylised way.

The shareholder is free to make his views known on the future direction of the company, its policy and its management style. Every shareholder has a vote which he can use to approve or disapprove of the policy of the board and to support or reject the candidatures of directors coming up for re-election. Only in a nationalised industry can employees have no direct say because they cannot become shareholders. In some smaller private sector firms employees can become important shareholders and have considerable influence over the direction of the company. In larger businesses many are now adopting employee-share schemes. As employees become shareholders they see the need for profits and dividends and a strong company, and begin to think of themselves as part owners as well as employees.

The employees rights are defended by employment law but they do not bring the same freedoms and entitlements that shareholders gain. Shareholder democracy has in recent years suffered from the growth of large institutional shareholdings. Although the institutions act as the agents of the large pension funds and insurance funds, they in practice have a considerable autonomy over the use of the votes. They are usually reluctant to intervene in company meetings or to use the votes at all. The institutional shareholder rarely intervenes and when he does he does it behind closed doors outside the forum of the company general meeting. Less responsible institutional shareholders are pursuing business ends for themselves rather than thinking of the best future of the companies in which their clients are investing. I always made it a practice when controlling institutional funds to go to company meetings and to exercise the votes. I have

frequently been at larger company meetings with a proxy for one or two percent of the share capital only and have found myself controlling more votes than most of the other people who turned up for the meeting.

Above all, the ownership of property encourages people to exercise new rights, spreads power in the community and brings upon people new responsibilities. The home-owner has to repair his own property. The employee shareholder has to think about the greater good of the company as a whole as well as about his next wage claim. The best bulwark against nationalisation and confiscation of assets by the state is the spreading of asset-ownership widely through the community. The best bulwark against negligent management or the abuse of power in large companies and in large property estates by landlords is the transfer of ownership to as many people as possible.

What action is the Government taking and could it take to increase home-ownership? The Government have been successful in encouraging more people to own their own home. It has done this by:

- (i) preserving the system of mortgage interest relief against income tax;
- (ii) lowering the costs of purchase in the housing market: the budget halved stamp duty and raised the threshold. The investigation of the solicitors conveyancing monopoly is likely to lead to reduced fees for many property transactions. The development of competition and advertising between estate agents is also beginning to reduce the costs of selling a house;
- (iii) the encouragement of council house sales to tenants at a generous discount.
- (iv) the encouragement of sale of derelict land in urban areas, in part to housebuilders who can put up cheaper housing.
- (v) the encouragement of a range of low-cost, low-start mortgage schemes and part equity schemes.

The development of a home-owning democracy has transformed the political process in the United Kingdom. The ownership of a home is now a realistic objective for two thirds of the population and it could easily become realistic for three quarters. Some of the better council housing estates are already being transformed visually by the new owners who are keen to renovate their houses, improve their gardens and change the face of the council estate.

What is being done and could be done to extend employee shareholdings?

The Government is extending the number of employee shareholders by:

- (a) the budget relief for employee shareholding schemes which is now quite generous;
- (b) encouraging management buy-outs in the public and private sectors. The National Freight Corporation was a singular success where the managers and lorry drivers bought up their business, transformed it and are now sitting on profits of over 400% on their stake money;
- (c) encouraging employee shareholdings when businesses are denationalised through employee preference schemes: eg Britoil, Cable and Wireless.
- (d) the range of measures to help small business and the Enterprise Allowance to encourage people to set up on their own.

What is and can be done to spread the ownership of other assets more widely? The two features that are immediately striking about the current disposition of ownership of financial assets are the concentration of wealth-holding via institutions and the cautious nature of the remaining assets. £175 billion out of the net £405 billion of private wealth excluding houses taken the form of pension and insurance fund monies held through the institutions. Of the balance £140 billion takes the form of Building Society share and deposit accounts and cash, the most risk averse type of investment imaginable. The £45 billion in National Savings and Gilts would also be predominantly low risk with a term shorter than five years.

Policy is beginning to develop in a way which will associate people more directly with their indirect wealth-holdings and will ensure that future investment monies are channeled more directly into profitable commercial and industrial investment.

The budget began the task of moving towards a fiscally neutral system between different types of saving. The abolition of life insurance premium relief will undoubtedly reduce the attraction of investing via an insurance fund although the separate privileged tax position of the insurance life funds themselves has not yet been tackled. The likely response of the insurance industry is to encourage more saving through personalised pension plans, additional voluntary contribution schemes and direct unit-linked saving.

An individual's investment in a pension fund is often the second most important asset after his home. Norman Fowler's inquiry is examining the structure of these funds and may produce results which enable the individual to be more personally associated with the wealth being stored up on his behalf. Pensions funds attract considerable fiscal relief. There is corporation tax relief on the premiums paid in on behalf of the employee. This is reasonable and should remain as it is an allowable cost like wages. There is income tax relief on the premium paid by the employee and by the employer on his behalf. This is fine in the context where the pensions eventually paid are taxed. There is then income tax and capital gains tax relief on any income and gains accruing within the fund. This relief is more questionable, and represents a clear Government decision to favour savings for retirement above all other kinds of saving. There is then the tax free lump sum which is permitted to the individual upon retirement. This is politically popular and will be difficult to change. The immediate developments from Norman Fowler's inquiry are likely to be:

- (a) greater disclosure of information, pointing in the direction of giving each individual member of a fund a greater understanding of the wealth being created on his behalf. This should lead him to take a greater

personal interest in the pension fund and in its investments.

- (b) A scheme whereby employees retiring early or changing jobs can be sure of a fair transfer value when they leave the employers fund. At the moment early leavers, (who account for nearly 90% of all typical pension fund members) get a raw deal when they leave the company. They may be allowed to take their money with them and set up their own personal pension plan. If this happened then gradually over time more and more people would be directly involved with their own pension fund wealth.
- (c) More people might be allowed to contract out of the state earnings related scheme if they do not have an employers scheme by setting up their own personal pension plan.

All or any of these routes would make some improvement in the operation of pension plans as they affect job mobility and at the same time move in the direction of people understanding their own wealth holdings more clearly.

Conclusion

Individuals in this country are already quite wealthy but often do not know it. 60% of the people understand that they are home-owners and that their home represents an important asset. The 11,000,000 people in occupational pension schemes have a much less clear understanding of the wealth that is being built up on their behalf, but policy may well move in the direction of improving their understanding. This is the major problem to tackle in associating people directly with the ownership of the industrial and commercial fabric of the economy. If this Government does not move in this direction then it will be open to any future Labour Government to nationalise large chunks of the British economy through the backdoor imposition of controls over the institutional holdings of wealth.

Government policy is also, rightly, influencing the flow of new savings into investments in a way which encourages individual saving rather than institutionalised saving. The business expansion scheme, the abolition

of life insurance relief and the encouragement of employee shareholdings are all part of a wider picture to encourage more direct ownership and reduce the pulling power of institutional control which is being generated on the back of generous tax reliefs.

The property owning democracy is very close to being a reality and property is to be taken in its widest sense and not just to refer to houses.