THE TEMPLETON LECTURE

Shares For All

steps towards a share - owning society

Sir Nicholas Goodison

CENTRE FOR POLICY STUDIES

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8 Wilfred Street, London SW1E 6PL

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The author

Sir Nicholas Goodison, senior partner of the broking firm Quilter Goodison & Company, was elected to the Council of the Stock Exchange in 1968, and became its Chairman in 1976. He is also President of the International Federation of Stock Exchanges.

Amongst his many other distinctions he is trustee of the Royal Academy of Arts, Vice-Chairman of the Board of English National Opera, and President of the Antiquarian Horological Society.

A renaissance in share ownership

Share ownership is enjoying something of a renaissance. There are many more people today with a direct share in the risk capital of British industry and commerce than there were five years ago. When I talk about wider share ownership at a Conservative Party committee meeting, I am no longer treated as if I am an apostle of the Unknown God or a preacher of impractical reform. There is a greater understanding of the advantages of wider share ownership, even a touch of religious fervour. Wider share ownership has got onto the agenda.

The change is splendid. I even detect the possibility of a measure of agreement between the political parties, originating from the constructive attitudes of the Alliance. I hope that the spread of share ownership will become, as home ownership has become, a case of the parties vying as the years go by to pinch each others' clothes. But obviously the Conservatives ought to be way out ahead in the new sartorial fashion: and I hope the Centre for Policy Studies, which has contributed much to the Party's intiatives on the subject in the past, will continue to stimulate constructive action.

Why?

There are many answers to this question and you are familiar with them all. Let me briefly mention five:

Investment

The growth of the contractual savings institutions, on the back of the inflation of wages and a biased tax system, has certainly helped to increase the level of savings and to bring some security to peoples' lives. But this has been at the sacrifice of a more direct personal involvement in the risks and rewards of industry. We are a commercial nation. When Napoleon called us a 'nation of shopkeepers', he no doubt intended it to imply small-mindedness. But it surely indicates two features of our national temperament. We are traders, and we like a slice of the action. It is surely better, in this competitive last quarter of the twentieth century, to have as many people directly involved in the rewards and risks of our industry and commerce as possible. It is better for the workplace. There is evidence that industry performs better when all employees feel they have a stake in the prosperity of the company. And it is better in the country at large, not only because everyone can have a slice of the action, but because it leads to greater understanding.

Understanding

Greater involvement brings greater understanding – understanding of the prime importance of industry and commerce to the quality of life in this country; understanding therefore of the prime importance of profits in industry and commerce; understanding of the need in industry for top quality management; understanding of the need for inventiveness, for quality of the goods and services produced, for efficient production, for effective marketing and after-sales service, and for co-operation between manager and managed at all levels; understanding of the folly of permitting political dogma to intervene in these fundamental needs; understanding of the need to bury Clause 4 of the Labour Party's constitution with the usual British decency, giving it a finely worded obituary despite the damage it has done to our economy. Direct investment in shares, in short, has a high educational value.

Efficiency

The verdict of history, with a very few exceptions, is that the State is not likely to be an effective manager of industry. Institutional investors can of course bring pressure to bear on inefficient management. But a large number of directly involved shareholders, both in the work-place and outside it, is also likely to be a spur to good management.

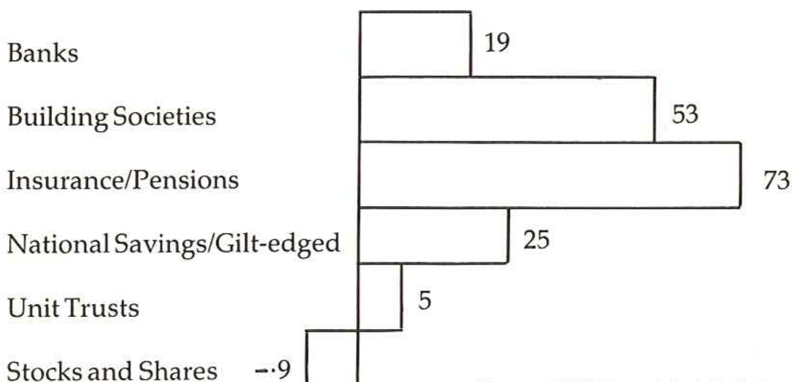
Investment

In the case of state industries, too, there is the argument that access to public capital markets and the absence of bureaucratic or political restraints are more likely to lead to capital formation and profit.

But there is a broader point here. There is an enormous pool of personal wealth in the country for industry to tap. No government of a major industrial nation in any political system can ensure the totally efficient allocation of resources. But something is surely wrong in a country which depends fundamentally on the success of its industry and commerce if personal savings are steered toward unproductive assets. The country's privately-owned housing stock is said to be valued at about £420,000,000,000. Building society deposits stand at a further £91,000,000,000. Both are examples, at least to some extent, of fiscal steering. Owner-occupied houses have been particularly favoured by the tax system. The total value of the ordinary shares of British listed companies in the hands of direct investors is estimated at only £65,000,000,000. A nation of industrialists? Or a nation of houseowners? Would resources not be allocated more productively, if the system was not so biased?

How people saved 1981-1985
(in billions)

Table 1



(Source: CSO Financial statistics)

Successful saving

Investment in ordinary shares has been profitable. In a successful economy it should continue to be so. Of course, in the obligatory words of unit trust advertising, the prices of shares can go down as well as up: but the true value of fixed income investments and cash deposits has done nothing but go down over many years. So let us not underrate the appeal of well-chosen industrial risk capital to today's savers, or indeed the fun of direct investment. It is an absorbing and enjoyable pursuit.

But enough of philosophy. What is the practical reality? How far have we come? Where do we go next?

How far have we come?

Ideas on how to encourage wider share ownership have been about for years. They have included particularly direct tax incentives of various sorts, employees' profit-sharing and savings schemes, and retirement accounts. All have relied on fiscal reform – in other words, either on directly encouraging savings in shares through the tax system or on reducing the discriminatory tax burden levied on direct share ownership.

Britain cannot unfortunately claim to have been in the lead. The Loi-Monory scheme introduced in France in 1978 was hugely successful in bringing the small investor to the Bourse and increasing the amount of equity capital subscribed to French industry – and I must remind you that it was the latter point that was the chief objective of the reform. Between 1977 and 1982 the proportion of French households investing in listed securities rose from 7% to 17%. In modified form the Loi-Monory has been copied by other European countries, most notably Belgium and West Germany. A similar scheme in Sweden has turned one-sixth of the population into investors. In the USA Individual Retirement Accounts (IRAs) and Keogh Accounts offer other lessons. The New York Stock Exchange conducted a survey of share-ownership in 1984 which showed that 45% of all share-owners participate in an IRA or Keogh account. In the face of that evidence there can no longer be any doubt about the positive manner in which people of relatively modest means will respond to fairer tax treatment.

How have things gone in Britain? The first ray of hope came in the closing stages of the last Socialist Government, when the Liberals pushed an unwilling administration into the first-ever tax concessions in the area of employee profit-sharing. It was a significant reform, and reflected the mood in the country against the domination of faceless State industry and powerful centralised unions. It was a blow for the individual and his rightful place in the economic scheme of things.

Now, I do not want to sound churlish, but I found the incoming Conservative Government in 1979 distinctly slow off the mark in furthering the cause of people's capitalism. On a charitable view they were deflected perhaps by all the other very good reforms on which they were engaged. Apart from reductions in income tax and CTT (and I do not underrate the importance of either of those), the first term saw little other than a modest extension of the employee profit-sharing schemes and some tinkering with taxes on saving, such as capital gains tax. Very little was done towards equalising the tax treatments of all types of investment.

In the second term more has been done and the pace has quickened. The change in attitude which I mentioned earlier has taken firmer root. In 1984 the tax privilege attached to life assurance was abandoned. So was the investment income surcharge. At last, transaction taxes, mostly in the form of stamp duty, were reduced. Employee share schemes were given a further boost. There are now over a thousand all-employee share schemes in operation, involving around a million employees. In 1979 there were only 30 such schemes in existence. I think we can agree that the growth is remarkable.

And the Government has used the de-nationalisation of major enterprises as a positive opportunity to promote wider share ownership.

The effects of all this are already apparent. The steady decline in the number of direct shareholders has stopped. The growth of employee share schemes and the de-nationalisation programme particularly have reversed the trend. In recent months, surveys have suggested that rather more people in Britain own shares than we used to think. In a Treasury study conducted in February this year, research indicated that some 14% of the adult population own shares. Two studies made by The Stock Exchange have suggested a slightly higher figure of about 16%. Another survey suggests about 12%. The exact figures vary because of differences in the questions which people in the sample surveys are asked about share owning. All in all, it is a fair assumption to say that at least 12% of the UK adult population own shares, and that is some five million people.

But let us not instantly jump for joy at these crude figures. It is certainly pleasing that the total number of people who own shares directly has risen. It is also pleasing that, according to The Stock Exchange's survey, share ownership is spreading across the social scale and that 58% belong (in the jargon beloved by market research organisations) to the C, D and E socio-economic groups. It is excellent that commentary on stocks and shares can now be found in the pages of the *Daily Mirror* (as it can be, incidentally, in the pages of the leading Communist newspaper in Italy). To quote from the survey.

Profiles of shareholder groups Table 2

	All shareholders	BT Only	Own Company	Shares in BT
Unweighted	483	84	112	237
Base	%	%	%	%
Men	58	52	73	60
Women	42	48	27	40
AB	42	27	34	35
C1	29	31	29	29
C2	16	24	22	19
DE	13	19	16	17

But other findings are also significant. The Stock Exchange survey showed, for example, that 51% of shareholders have shares in only one company and that a further 20% do not hold shares in more than three companies.

Number of companies in which shares are held Table 3

Base: all Shareholders (483)	%
1	51
2	11
3	9
4-5	10
6-7	4
8-10	4
11-15	4
16-20	1
21-30	1
31-50	*
Over 60	1
Don't know/not stated	4
Average number of companies in which shares are held	4.1

* = less than 0.5

These figures reflect no doubt the success of profit-sharing schemes (some 35% of shareholders responded that they obtained their shares through a scheme run by their employer) and of the de-nationalisation of British Telecom, which was used as a means of tempting a lot of first-time investors. But with only 29% of shareholders – only one and a half million people – having more than four equity holdings, we have a very, very long way to go before we can say that shareholding has become a habit. And a habit it must become, a habit which people throughout the country will regard as an accepted and desirable part of our way of life.

How shares are obtained Table 4

	%
Base All Shareholders (483)	
Bought them myself	68
Through an employee scheme	30
Inherited them	18
I was given them	9
Other answers	1

(Some respondents obtained shares in more than one way, so this table adds up to more than 100%.)

The signs of further growth are encouraging. Profit-sharing schemes are firmly established and are on the increase. Further de-nationalisation campaigns are in the pipeline, with British Gas this autumn due to be the largest issue ever. This will surely do still more to encourage first-time buyers to purchase shares and to sustain the interest of shareholders brought in by the British Telecom issue. I hope that the question marks hanging over The Royal Ordnance, British Airways and one or two other candidates can be resolved without delay.

In the field of pensions, reforms are under discussion which will allow all members of existing pension schemes to switch to personal portable pensions should they wish to do so. This would encourage wider share ownership by turning remote collective ownership into direct individual ownership. Schemes already exist enabling self-employed people to invest their retirement accounts directly in shares. An extension of this principle to all savers is a natural extension of the desirable principle of direct involvement.

More recently, the Government has announced its intention to reduce stamp duty further to one half percent from October. This does not go far enough, but it will help to cut the costs of transactions. And, perhaps most significant of all, is the proposed introduction of the Personal Equity Plan, the PEP scheme as it has become known. This will allow any adult citizen to invest up to £2,400 a year in shares with the benefit of tax-free profits and dividends. The PEP concept falls short of the more ambitious incentive schemes like the Loi-Monory and will probably not be as successful in encouraging the same numbers of new investors as in France, Belgium, Sweden and Norway: but it is a significant pointer for the future and was inconceivable at Westminster a few years ago.

Where do we go from here?

Having been late off the mark, the Government needs to act decisively during the rest of this Parliament. The immediate need is to carry through to their logical conclusion many of the steps already taken:

- promote de-nationalisation vigorously;
- get the personal pension reforms worked out in practice;
- abolish stamp duty;
- simplify the hideously complex rules on the indexation for capital gains tax purposes: even abolish capital gains tax;
- promote PEPs vigorously and simplify their administration; and
- open the doors wider on employee share ownership schemes.

We need meanwhile to study whether this programme, which continues on the lines of present policies, is enough. Here surely is fruitful work for the Centre for Policy Studies, and I hope it can be done quickly.

Two lines of enquiry occur to me. The first is the obvious one of fiscal neutrality. Does the PEP plan go far enough? I suspect not. I said earlier that share ownership is a very long way from becoming a habit, and backed that up with figures. To turn it into a habit we need bold and decisive fiscal reforms aimed at making share ownership desirable, something each saving citizen feels he cannot forego. The PEP scheme is a first tentative step, but it will not achieve this aim. I do not want to underestimate the originality or the significance of the proposed reform in the context of our awful tax system, but the fair treatment of savings calls for something more far-reaching.

The second line of enquiry is the idea mooted by several, including John Templeton and now the SDP, of handing over shares in nationalised industries to all adult citizens free of charge rather than going through the offers for sale which have been used as the means of implementing the de-nationalisation plans. I have much personal sympathy with this idea, while recognising that it is administratively very complex and that the Treasury will find it unappealing. But I like the idea of a really massive increase in the number of shareholders and, indeed, of a single company with up to 41 million of them. A nightmare for the Registrar perhaps, but the stuff that the wider share ownership supporter's dreams are made of. There are, after all, nearly 30 million holders of National Savings accounts and about 29 million building society accounts.

But steps taken by the Government of the day may never prove to be decisive – because some of them can be reversed – unless something more fundamental occurs. We need to change attitudes toward risk.

I have heard it said that the real cause for the decline in private share ownership is that the British people are more 'risk averse' than others. I doubt it. Certainly the experience of the bookies and the pools promoters suggests otherwise. It is surely more likely that during the long decades when politicians preached against private wealth, against industrial success and against profit, when the shareholding habit was considered immoral and when The Stock Exchange was described frequently by people who should have known better as a casino, when industrial profits were declining to practically nothing and politicians seemed not to care about it, when taxes on saving in industrial risk were penal . . . it is surely more likely that people avoided shares in response to political leadership and bad policies. Things are different now. So let us set about creating some enthusiasm.

Attitudes of shareholders and non-shareholders Table 5

	Shareholders	Non-Shareholders
Base: unweighted	149	862
I think stocks and shares are an interesting way of saving or investing	3.47*	2.85
If I had some spare money to invest I'd consider stocks and shares	3.62	2.66
I follow the Stock Market closely	2.53	1.34

* *mean score: 5 = strong agreement; 1 = strong disagreement*

Much of this campaign of education necessarily needs to come from government. But we should all play our part in it.

The Stock Exchange can and will take two major steps. First, we are trying to remove the mystique of share ownership, by spreading the word about how to buy and sell shares. The goal must be to 'de-mystify' The Stock Exchange as an institution, to make more people aware of the way in which an investment of shares is made and business is done. With this objective in mind we launched an advertising campaign in the national newspapers last spring. The second phase of the campaign began a fortnight ago, backed up with the publication of a free 48-page booklet for investors giving them information about how to get started in the market.

Second, we are developing an automatic share execution system which will help make dealing costs more economical for brokers and encourage them to expand their business for direct investors.

The brokers are well aware of the commercial opportunities developing, and it is encouraging how some of the larger ones are catching the enthusiasm of their smaller competitors for the business of direct investors. Their new enthusiasm will I hope infect the investors whom they hope to serve.

The change of attitude to risk is important. The need is to make the change irreversible, to ensure that owning shares is regarded across the political spectrum as desirable as is owning a house. That can be achieved either through education or through making large numbers of voters shareholders, but preferably through both.

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