From: Jeffrey Epstein <jeevacation@gmail.com>
To: PETER MANDELSON <[redacted]>
Subject: Re: Fw: Business issues
Date: Sat, 13 Jun 2009 20:06:42 +0000

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what salable assets?

On Sat, Jun 13, 2009 at 2:08 PM, PETER MANDELSON <[redacted]> wrote:

> Interesting note that's gone to the PM.
> --- On **Sat, 13/6/09, Nick Butler <**[redacted]> wrote:
>
> > From: Nick Butler <[redacted]>
> > Subject: Business issues
> > To: [redacted]
> > Cc: "Duty Clerk - Desk -" <[redacted]>, "Jeremy Heywood" <[redacted]>, "Christina Scott" <[redacted]>, "PETER MANDELSON (E-mail)" <[redacted]>, "Shriti Vadera (Personal)" <[redacted]>
> > Date: Saturday, 13 June, 2009, 5:33 PM
> >
> > Dear Gordon
> >
> > Business is now less worried by the economic situation than at any time in the last nine months. Only one FTSE 100 company is in any real difficulty - most are pulling through, making efficiency savings and generally cutting costs to match lower levels of demand. The economy is flat and the recession is not over - unemployment is still rising - but we are in better shape than Germany or Japan and in some ways better than the US. The data on inward investment is excellent, as are the revised forecasts on unemployment which now suggest a peak below 3 million.
> >
> > Business support for the Government has been destabilised by the events of the last four weeks but there remains no fundamental divergence of view about economic policy or the Government's management of the banking crisis.
> >
> > Business is probably now marginally anticipating a Tory victory - just on the basis of the Euro results and the polls - but there is no

evident enthusiasm, and very noticeably no stream of endorsements of Cameron by business leaders.

In going round I am still getting a good reaction.

There are three key issues which deserve attention before the summer

First we need to **encourage and bring forward private sector investment**. There is a clear consensus among commentators from Martin Wolf to Paul Krugman that the economic upturn will come not as a result of personal consumption, or public spending. Nor, given the downturn in global trade will it come from exports. Private sector investment is absolutely critical. I think Shriti would endorse this view. Most forecasts show an upturn in private investment coming from 2010 onwards. If we could bring it forward by 6/9 months it would advance the upturn and change the outlook going into 2010. I have suggested to Peter that the Business Department should examine the barriers and disincentives to investment and come up with a plan to encourage investment across the economy. Although some companies have difficult getting credit, many more are hoarding capital - there have been a number of major issues of corporate bonds. Many companies also have growth plans on hold. The challenge is to get that money moving.

Apart from expectations about the economy, which are now moving in a helpful direction the only major device available to Government is a further extension of the capital allowances announced in the Budget. We should consider raising the capital allowance on new investment to 75 per cent (or even more) for the remainder of this tax year.

It would be even better of course to do on a pan European basis (because we need a revival of the European economy to sustain exports) but it would probably take too long to get agreement so we should take the lead.

Secondly we need to develop **an active financial policy** to match the active industrial approach.

The thing which worries business most is the threat of further tax rises - on successful companies and on individuals.

Many business leaders have accepted the IFS view, echoed by the FT, that the current Treasury projections of the financial outlook are not sustainable. We have not yet successfully countered that argument.

I think the answer lies in releasing value from the very substantial asset base which the Government holds. A number of business leaders who understand financial engineering have asked in different ways why we are borrowing so much and tolerating such high debt charges when we have saleable assets in hand which are not strategic - i.e. there is no good political or economic reason why they are in the public sector.

I know Jeremy has done some work on this.

The point which the Tories appear to have missed in focusing the argument on cuts v spending is that asset sales of even £ 20 bn would relieve the debt burden, reduce borrowing costs, and provide some funds for new investment.

Such an approach would permit the development of selective incentives for investment - which is just what the economy needs. It would also enable us to go into the election with a pledge not to make any further increase in corporate or top rate income taxes in the next parliament. This is important because there are still some companies - mostly in the financial area but also highly mobile companies such as GSK which are investigating the possibility and costs of moving out of the UK. Tax for them is the critical issue and as well as dealing with the specific issues such as taxation of patents a firm overall pledge on taxes would ease the pressure to move.

I believe it would be worth asking Liam, who has experience in this area to come up with a asset sales plan. I am sure the banks would have a number of creative ideas.

The third is **to engage with business** - to listen, to invite views and to demonstrate our alignment with their objectives. Most importantly they need to understand our view of the causes of the problems and our response - broadly as you set it out at the CBI in May. They also need a channel for expressing their concerns.   The communications process - nationally and regional - should explicitly include business as a target audience and there is a good case for finding another key business audience to which you can talk before the summer.

Best wishes

Nick