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10 DOWNING STREET

From the Private Secretary

17 August 1981

The Prime Minister has seen a copy of Lord Gowrie's letter to the Chancellor of 12 August, in which he raised the suggestion that the Government might impose a levy on the overseas holdings and outflows of the corporate savings sector.

The Prime Minister sees serious difficulties in such a proposal. She is not attracted by the idea of a levy on savings in any form. In her view, it would be simpler to reduce the tax relief available to pension and insurance funds. If Lord Gowrie's proposal were to be taken any further, she foresees particular difficulties in relation to investment in the developing countries, at a time when the Government is seeking to demonstrate internationally that commercial flows of funds are an important part of our financial relationship with the developing world. Any step which could be interpreted as taxing such flows would not help our case as we go into a series of major international meetings where North-South problems will be discussed.

I am sending a copy of this letter to David Fraser (Lord Gowrie's Office, Department of Employment).

M. A. PATTISON

Peter Jenkins, Esq.,
H.M. Treasury.

CONFIDENTIAL

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Minister of State

cc Mr Walters

Prime Minister
An interesting idea for raising revenue from Lord Gowrie.

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury
Great George Street
LONDON SW1

12 August 1981

A levy on savings!
It would be simpler to reduce the tax relief available to pension and insurance funds.
MS

Investment is undertaken in countries. Marx? North South dialogue all vital!!
12/8

Dear Geoffrey,

Following my attendance at NEDC last week, in Jim Prior's absence, I am writing to you with a revenue idea that has come to me after talking to some fund managers in the corporate savings sector.

This is a suggestion for a levy to be raised by the Government on the overseas holdings and outflows of the corporate savings sector. This levy could be seen as a kind of commission or dollar premium for the unprecedented freedoms we have given this sector to invest abroad. These freedoms are entirely right as it makes excellent sense for an offshore island and trading economy to take a stake in other economies - one way or another we have done so for centuries. But corporate fund professionals to whom I have spoken are amazed that there has been so little directed investment in this country and are braced for it sooner or later.

I understand that some 20% of corporate savings sector funds now go to overseas assets and this proportion is rising. This puts the present outflow figure at about £3 billion. A 5% levy on an annual outflow of this size could yield £150 million a year. If we also placed a levy on corporate holdings overseas this would yield something like another £100 million in the first year.

This seems to me an idea for extra revenue well worth considering as we seek to maintain our economic strategy and in particular the position that you are taking on pay and unemployment. The cash limit/tight money squeeze is proving a successful counter inflation policy for wages: halved this pay round and this is the first pay round presided over by the Government uncompromised by Labour's post dated settlements and pre-electoral doubling of PSBR. The mid-1980 RPI was effectively where we started, not the May 1979 figure.

However, for this squeeze to continue and for the counter inflationary pressure to be maintained on those in work, the Government has to be seen to be less politically vulnerable on the school leaver issue (for which I have monitoring responsibility within this Department). In that quest we are going to have to consider again this autumn moving towards a German style scheme for the training of young people and such a levy as I suggest could be seen as a help towards any additional net costs. It would then have the political attraction of retaining the funds' freedom from direction, while acknowledging the connection between building up human as well as financial assets for the future.

I have discussed this idea with Jim Prior, who is on holiday, and he has agreed that I should write to you. I am copying this letter to the Prime Minister, to Keith Joseph and David Howell, whose spokesman I am in the House of Lords, and to Michael Heseltine in view of his discussions with the fund professionals in connection with Merseyside which I attended.

Yours,

Grey

LORD GOWRIE