



HOUSE OF COMMONS

LONDON SW1A 0AA

13th October, 1977.

Dear Geoffrey,

Policy on Freedom of Capital Movements and  
Liberalisation of Exchange Controls.

1. With the improved balance of payments, and the oncoming requirements of the Rome Treaty, the above matter is now coming very much to the fore, and I think we should clarify where we stand and what, if anything, we say.

2. In particular, it is worth noting the very strong opposition building up in the Labour Party against greater freedom in this area, since the principle is of course, diametrically opposed to socialist economic policies. Papers have come to my hand from the Labour Party Research Department, expressing grave fears that Britain may be forced by the Rome Treaty into greater freedoms, and for this reason alone, there may be some political advantage in the whole issue for us.

3. Since this is a central and sensitive part of our whole economic policy stance, I am copying this note to Mrs. Thatcher.

4. The issue is being raised currently in the press in three forms:

i) The argument that exchange controls should be lifted to encourage more overseas investment of North Sea oil monies, and to offset the destabilising effect of heavy capital inflows.

ii) The narrower argument that the surrender premium distorts portfolio management and weakens the position of the City of London as a financial and fund management centre.

iii) The argument that under Article 67 ~~of~~ the Rome Treaty requires us to get rid of controls - in fact by 1.1.78, although under Articles 108 and 109 the United Kingdom government is for the time being protected from having to fulfill its obligations.

5. Taking these items in turn - first overseas investment:-  
In practice, large British companies wishing to invest overseas, have had not much difficulty in raising "back to back" foreign currency

/loans.....



5 contd.

loans. Smaller companies are of course severely inhibited by the prospect of having to pay the heavy premium in the "investment currency market". In presenting our attitude to the North Sea oil issue, I would have thought that there was a strong case for supporting relaxation, and arguing that moves on this front must go hand in hand with tax cuts and "letting the people have the oil cash".

6. The 25% surrender premium is really a much smaller issue, although it causes much irritation. Given our wish to encourage investment, including overseas investment, it is for consideration whether we should wait to remove this as part of a general relaxation of exchange controls, or whether we should just do it on its own. ~~a~~ move which might be misinterpreted - but we should discuss.

7. E.E.C. obligations:- This is really the most important aspect politically. The Accession Treaty requires that all transitional derogations should end on 1.1.78, and it laid down a time-table for the United Kingdom to remove all controls on capital movements. Under Articles 108 and 109, we are excused from this time-table on grounds of serious balance of payments difficulties, but in the more favourable balance of payments situation emerging, it is increasingly hard to see how we can continue to take cover behind this argument.

8. The Labour Party are of course, totally against the principle of greater freedom of capital movements, and much prefer a Berlin Wall of financial controls behind which they can push ahead with the Wealth Tax, Investment Income Surcharge and all their capital taxes; and behind which they can force British companies to invest in Britain under "Planning Agreements".

9. For this reason alone, there might be a substantial tactical advantage in calling publicly for relaxation, and for fulfilling the obligations of Article 67. The Liberals, as usual, would be dragged both ways, and our alliance with this excellent "freedom" cause would surely do us nothing but good. If it sounds a bit technical, why don't we start by demanding an end to the lunatic rule which stops travellers taking more than £25 in cash out of Britain? The only other places I have encountered controls of this kind are at Checkpoint Charlie, where the East Germans forbid you to take any Ostmarks into the West, and at the China/Hong Kong border, where the Red Chinese, likewise, strip you of all ~~your~~ before you cross over to freedom.

Yours ever,

The Rt. Hon. Sir Geoffrey Howe Q.C., M.P.,  
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c.c. The Rt. Hon. Mrs Margaret Thatcher M.P., ✓  
Adam Ridley Esq.