From: NIGEL LAWSON MP

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Confidential 21st February, 1979.

I read with much interest the correspondence on exchange control culminating in John Nott's letter to you of 12th February. Basically I entirely share John's position - with one exception.

That exception concerns John's suggestion that we should retain "voluntary" control on institutional investments overseas, at least at the outset. It is quite true that given freedom from exchange control, the institutions would take advantage of it if they could. However, there is a strict limit to this, since they are obliged to have regard to the fact that their liabilities are in sterling. For this reason, the consensus of opinion among those pension fund managers (and their advisors) to whom I have spoken, is that they would, given the abolition of exchange control, not have more than 20% of their investments overseas. It seems possible, therefore, that the Treasury certainly, and the Bank possibly, may be harbouring exaggerated fears in this context.

However, the more important point seems to me to be this. There is a great advantage for us politically, in bringing 14 million members of occupational pension funds into any argument concerning investments. This was amply borne out in last year's debate on dividend control. It does seem to me, by the same token, politically more attractive to have the opportunity to invest overseas open to the man in the street, via his membership of a pension fund, rather than having it confined to the rich. Another, albeit less important, consideration, is that in as much as we are concerned at the growing stake in private industry owned by public sector pension funds, there is clearly something to be said for that growth being arrested by the voluntary diversion of funds overseas.

Finally, I hope that we will always bear in mind the desirability of building up a source of overseas investment to take the place of the foreign exchange earnings from oil when that runs out. This can only be achieved by an

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increase in investment overseas in the meantime. Indeed, this may be the only sensible way of preventing an exchange rate "artificially" boosted by ephemeral oil earnings from killing the export market for our manufacturers.

The Rt. Hon. Sir Geoffrey Howe, QC, MP.

cc: The Rt. Hon. Mrs. Margaret Thatcher, M.P.
The Rt. Hon. Sir Keith Joseph Bt, MP
Mr. John Nott, M.P.