

Prime Minister



Agree Chancellor's  
proposed written  
Answer - subject

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

to any points  
from colleagues?

PRIME MINISTER

Yes

12  
20/3

FUTURE OF THE EXCHANGE CONTROL ACT 1947

As you know, since announcing the abolition of exchange controls on 23rd October last, we have given thought to the future of the Exchange Control Act 1947 and also to whether we should be considering the imposition of some kind of inflow controls.

2. On the latter question, sterling has indeed remained strong, although it has eased from its recent peak. While external factors have played a part, a major influence has been that of our monetary policy: a high exchange rate is an important linkage in the transmission of a tight monetary policy to lower inflation. Recent levels of sterling certainly create problems for British industry but, as we have been emphasising, those must be countered by a lower increase in domestic costs and not by any easing of the Government's counter-inflationary stance.

3. In any case, experience has shown that direct inflow controls tend to become ineffective against really strong pressures after quite a short period. Given that the level of sterling to some extent reflects anticipation of the medium-term lifting of the exchange rate which increased North Sea oil production and higher oil prices will bring, it would seem inappropriate to try to use short-term controls to deal with an essentially medium-term phenomenon. Also,

/of course,



of course, introducing inflow controls would conflict with much of the reasoning behind the decision to abolish outflow controls, notably our aims of letting the rate respond more freely to market forces, removing economic distortions and allowing administrative savings to be made in both public and private sectors.

*you have  
already  
agreed this  
Th.*

4. We have concluded, therefore, that no action should be taken on inflow controls for the present. But it would not be prudent to ignore the possibility of needing to check really massive short-term speculative flows stimulated by events outside the UK, such as (less likely at present, I hope) a major collapse of confidence in the dollar. So my officials are working with the Bank of England on suitable contingency plans. This work relates closely to that on the future of the exchange control legislation, for the reasons below.

5. In the first place, it is at least doubtful whether existing powers would suffice to provide for controls which would be effective enough without impairing our monetary policy (we are awaiting advice from Treasury Counsel on this). Secondly, there remains in force a European Community Council Directive 72/156 of 21st March 1972 requiring member states to have available, without the need for further enabling measures, certain instruments for effective regulation of international capital flows. The Exchange Control Act 1947 is all we have for this purpose; and simply repealing it would conflict with our Treaty obligations.

6. At the same time, I regard the present Act as unsatisfactory for us to continue as it is for the longer term. I see no prospect, however, of there being time in the legislative programme for its early replacement by

/something more



something more suitable to our times - particularly less draconian and more symmetrical as between powers to control outflows and inflows. But officials are investigating what amendments might best be made to the 1947 Act in due course, perhaps by a gradual process in later Finance Bills with possibly an ultimate consolidation into a new Act - unless some unforeseen emergency were to force us to repair defects, particularly as regards inflows, by earlier legislation.

7. I announced to Parliament last November that I would be reviewing the future of the 1947 Act. I now intend, unless any colleagues directly concerned object, to report the outcome in a low key by a Written Answer, in due course, on the lines of the draft annexed.

8. I am sending copies of this minute to the Foreign Secretary, the Industry Secretary, the Chancellor of the Duchy, the Trade Secretary, the Energy Secretary, the Paymaster General, the Secretary of the Cabinet and the Governor of the Bank of England.

A handwritten signature in dark ink, appearing to be 'G.H.' with a flourish.

(G.H.)

19 March, 1980

FUTURE OF THE EXCHANGE CONTROL ACT 1947  
DRAFT PARLIAMENTARY WRITTEN ANSWER

Q. To ask the Chancellor of the Exchequer, if he has completed his review of the future of the Exchange Control Act 1947 and whether he will make a statement.

A. Yes. The House was told on 6 November last that, following my decision announced in October to abolish exchange controls, I would be reviewing the future of the Exchange Control Act 1947. I have now decided that, at least for the time being, the present Act should be retained.

I regard the 1947 Act as unsatisfactory in a number of ways, notably in the wide extent of its powers and in its bias, natural enough when it was introduced, towards the control of outflows. I see no prospect of time being made available in the legislative programme for the early replacement or substantive amendment of the Act; and simple repeal would not be compatible with our Treaty obligations.

I do however envisage that ultimately, and probably most conveniently in several stages, changes in the law will be sought with the objectives of making the powers available in this area less draconian and more symmetrical as between control of outflows and of inflows.

In the meantime, the Act needs to be kept in being because the United Kingdom Government is required under the European Community Council Directive 72/156 of 21 March 1972 to have available certain instruments for effective regulation of

/international

CONFIDENTIAL

international capital flows and for neutralising those effects of such flows on domestic liquidity which are considered undesirable. The Directive also requires that these instruments may be able, where necessary, to be put into operation without further enabling measures. The Exchange Control Act 1947 is the only current legislative authority in the United Kingdom under which the Government could take such action.