



*cc Walters
Haskyns*

cc Mrs Atin

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can't

29 April 1981

The Rt Hon Lord Soames GCMG GCVO CH CBE
Lord President of the Council
Civil Service Department
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LONDON SW1A 2AZ

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Dr Unwin

29/4

Thank you for your letter of 18 March suggesting we need to make it clear that we are, or should be, using North Sea oil revenues for investment rather than for financing consumption.

The first response is that I wish we were! Certainly everyone should have constantly in mind that North Sea oil is a wasting resource; and that it is therefore sensible, while we have it, to increase investment in UK productive assets, and in overseas assets which will generate income to help sustain the UK economy when the oil runs out. The problem is that we cannot rely on achieving that objective through what might be no more than an accounting device. Paying for certain investments out of an identified stream of revenues from the North Sea does not itself guarantee that the overall level of investment will be higher. Moreover this Government, of course, has no particular enthusiasm for increasing public, as opposed to private, sector investment.

But certainly it is at present the case that North Sea oil revenue is making it possible for us to support higher levels of public and private consumption than we could have had in its absence. More usefully perhaps it is helping us, by keeping down the PSBR, to reduce the level of interest rates.

But I can still share your anxiety that the oil revenue is, to too great an extent, being "frittered away". And, while I have not myself been persuaded that a separate fund would necessarily help in checking that effect, I do agree that it is well worth while looking for more effective ways of letting people understand the nature of the choices that face the nation. So I shall certainly reflect further about all these points in the context of the future determination and presentation of our spending and other plans.

I am sending copies of this letter to the recipients of yours.

[Signature]

GEOFFREY HOWE