



3

10 DOWNING STREET

5th July 1960.

Dear Mr. Thompson.

Enclosed is the "official"
reply to your letter. I fear it needs
like an official reply which is why
I couldn't send it without this
covering note.

I fully appreciate and am
largely in agreement with your analysis
and I share your aim. My problem
is not to decide what to do but
how to succeed in doing it - and

Dr

TO DOWNING STREET

that is much more difficult.
But we are making headway
if more slowly than I would wish.

I will put the requested
vouchers to good use.

Thank you so much for the
trouble you have taken in writing
in detail.

Kind regards,

Yours sincerely
Margaret Thelma

On the question of encouraging savings by tax reliefs you will be aware of course that the existing system already provides relief for life assurance premiums, superannuation schemes and SAYE. The Chancellor in his Budget also announced expanded relief for employee profit-sharing and share option schemes. He is giving careful consideration to the whole question of tax and savings in the light of the Wilson Committee report. We have also made a start in reducing the burden of capital taxation and intend to make the capital system simpler and less oppressive in the longer-term.

On the question of overseas aid, I can assure you that the Government believes that official aid continues to be an essential element in development, especially for the poorest countries. The need to control total public spending, however, limits the amount the Government can allocate to overseas aid. Our ability to support overseas development depends on our own economic health, and this requires cuts in public spending from which overseas aid cannot be exempt. The private sector too, of course, also has an important role to play in investing in developing countries, and I hope that this will continue.

Finally, you specifically mentioned the Bank of England's paper "The Measurement of Liquidity". This paper is primarily concerned with the measurement of banks' liquidity, and the need for individual banks to hold sufficient liquidity to be able to cope with fluctuations in financial flows. It does not discuss how total liquidity should grow over time. As you make clear in your letter, it is this question that is central to the control of money supply growth and hence inflation. As the Green Paper on Monetary Control emphasised, we are confident that we already have the means to control the rate of money supply growth over a year or more. I can assure you that we are determined to reduce progressively the rate of monetary growth in the years ahead, thereby substantially reducing the rate of inflation, which in turn will help to create the conditions necessary for sustained economic growth.

Yours sincerely
Margaret Thatcher