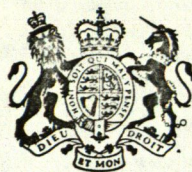


DSG



10 DOWNING STREET

THE PRIME MINISTER

18 March, 1981

Dear Mr Rootham.

Thank you for your letter of 12 March.

I was interested in your suggestions. But I doubt whether we could achieve a "drastic reduction" in interest rates while we are borrowing on the present scale without seriously jeopardising our monetary prospects. The exchange rate might not be unduly affected directly, but I believe it would soon fall if we were to abandon our monetary strategy; for that is what the markets would interpret it as.

Your proposal that we should reduce indirect taxes is superficially attractive. But I am afraid I would take a lot more convincing that revenues would be increased. In the long run, that might be the case: the trouble is that we have to get through to the long run.

Finally, if I may comment on your article, we have to put fiscal and monetary policy right. Certainly, you cannot have a sound monetary policy without a sound fiscal policy; but monetary policy is in our view extremely important in its own right. As for your general remarks about the need for a "more individualistic and less directed society", I could not agree more.

Please do not let your part of the country feel 'forgotten' - we think about it so much and do everything we can to help.

Jasper Rootham, Esq.

Yours sincerely,  
Margaret Thatcher

RTB