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**DEPARTMENT OF HEALTH & SOCIAL SECURITY**  
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*From the Secretary of State for Social Services*

February 1981

The Rt Hon Sir Geoffrey Howe QC MP  
 Chancellor of the Exchequer  
 Treasury Chambers  
 Great George Street  
 LONDON  
 SW1

*Dear Geoffrey,*

Thank you for your letter of 3 February.

Needless to say I very much welcome your decision to give effect to our Manifesto commitment and recognise that you will not be able to move at present on the other points mentioned in my letter.

I take the point that tax relief on health insurance premiums erodes the tax base and may affect the pattern of savings. On the other hand it may help relieve pressure to increase the volume of expenditure and hence taxation, and in the long run encourage some substitution of private for public expenditure on health care. I hope we shall be able to give further thought to the issues involved as part of a review of the longer-term financing of health care, on which I intend to produce a preliminary paper.

*Your ever  
Ratcl*