

PRIME MINISTER

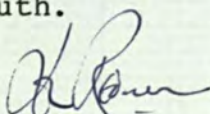
4 July 1985

I met today Mr Adams, who is an expert on the relationship between tax rates, the growth in wealth and activity, and tax revenues collected.

He says he sent you a large number of proposals in 1977, and he has now brought these up-to-date for me.

His main argument is simple. The best marginal rate of tax throughout the higher income spectrum is 40%. At this level, people go out to earn more; they declare more income; you collect more tax in; and the economy grows faster. He bases his argument on study of a range of nations, including the US, Japan and European countries over a long time period. He sees recent high marginal tax rates in the Western European countries as unusual and particularly damaging.

I explained to him that you had done a great deal which required political courage since 1979 to lower the marginal rate of tax on higher earnings. Any further reduction would lead to accusations of helping the rich at a time when there was a large number of people without work and on quite low earnings. But he wished his view to be strongly represented to you, and he has done a great deal of work to research its truth.


JOHN REDWOOD

