

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

File
Office Correspondence

Date February 2, 1942.

To Chairman Eccles

Subject: "Income vs. Sales Taxation as an
Anti-Inflationary Control", by Simeon
E. Leland

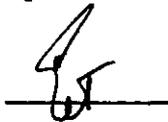
From Mr. Thurston

Leland, in the attached paper, does not differ with you on tax principles. He recognizes, as you do, the place of selective excise taxes. He also recognizes the inequity of general sales taxes. But he points out the short lag in collecting sales taxes, recognizing, however, that a payroll tax or income tax withheld at the source would have the least lag of all.

He says that in a sharp inflation quick collection of sales taxes would be very helpful. As prices increased, the yield from ad valorem sales taxes would automatically increase and the Government would have additional funds with which to meet rising costs. He also makes the important point that sales taxes would probably add fuel to the fire for increased wage demands. Then he shows that the coverage of sales taxes is unquestionably broader than that expected from income taxes. In other words, the sales tax reaches those below exemption limits, notably the farmers who, he says, are pretty generally beyond the reach of income taxes.

He shows, however, that a general sales tax would have to tax food and other basic necessities if it is to be effective, and adds, "It is revolting to advocate such taxation when living standards for the masses are so low." But he assumes that Congress will be unwilling to lower the exemptions to the extent that you and he advocate or to put up the rates on the lower groups, and says, "Although the consequences of regressive taxation are harsh, they are as nothing compared with the burdens indiscriminately scattered by inflation." He concludes that "as a tax restricted to booms and times of inflation there is a place for it (sales tax) in the tax system."

You might note his conclusion beginning on page 32. Otherwise, I do not think you need to read this paper although it is a thoughtful and able one and well worth keeping in your speech file for possible future reference.



Attachment