



WHARTON SCHOOL OF
FINANCE AND COMMERCE

August 22, 1942

Mr. Marriner S. Eccles
Chairman, Board of Governors
Federal Reserve System
Washington, D. C.

Dear Mr. Eccles:

I am devoting some time to a study of the feasibility and desirability of a graduated tax upon personal income spent as a supplemant to the present personal income taxes.

Such a tax could reach consumption at graduated rates both to raise revenue and to help curb inflationary tendencies and it could reach some types of expenditure, as that for household servants, which are exempt from sales taxes.

Deductions could be added to those of the personal income tax for approved items, as for the purchase of war bonds, existing debt commitments, and life insurance and social security taxes.

I am looking ahead, of course, to the revenue revision of 1943 and personally hope that a general sales tax may be averted, perhaps by a graduated tax upon income spent. This would be no panacea, but if its administration could be worked out it might be worth trying in the present emergency.

Just now I am merely trying to reach impartial conclusions on the idea. I have talked with Alfred H. Williams, President of the Philadelphia Reserve Bank, and I hope to get the opinions of various tax students and those interested in fiscal policy. I should welcome any thoughts you may feel free to express and if the idea seems worth discussing I should be glad to meet with you at a convenient time. I understand the Treasury is giving some thought to the subject also.

Sincerely yours,

Alfred G. Buehler
Professor of Public Finance

August 31, 1942.

Mr. Alfred G. Buehler,
Professor of Public Finance,
Wharton School of Finance
and Commerce,
University of Pennsylvania,
Philadelphia, Pennsylvania.

Dear Mr. Buehler:

As Chairman Eccles is temporarily away, I wish to acknowledge your letter of August 22 with regard to the so-called spending tax. I had referred your letter to our economics staff, which accounts for the delay in responding to it.

Since then, as you have doubtless noticed, Senator George has announced that the Senate Finance Committee is going to consider this proposal which the Treasury has been studying intensively, I understand, for some time. You are, of course, familiar with the general arguments for it. One additional thought which came to mind here the other day was that it should be something of a deterrent to the cashing in and spending of War Savings Bonds.

Sincerely yours,

Elliott Thurston,
Special Assistant
to the Chairman.

ET:b