

Chairman PATMAN. There is also a serious question in my mind concerning your proposals for cutting the corporate income tax. The question in my mind is whether such cuts would do more harm to the economy by stimulating increased savings than they would do good by stimulating investment.

Before these hearings started, we heard a great deal about the so-called profit squeeze, but the facts presented at the hearings show that there is really no profit squeeze, except one which results from the corporations counting relatively more of their cash income as depreciation and relatively less as profit.

Let me ask this, Mr. Secretary: The new depreciation guidelines which the Treasury issued last month will, of course, increase profitability of the corporations. That is what they are intended to do. But as far as profits are concerned, they will have a tendency to make the profit rates even lower, will they not?

Secretary DILLON. That might be the first and immediate result. Naturally, if you increase depreciation charges, you reduce not only taxes but profits. So business would tend, to the extent they use this, to report lower profits immediately.

Over a period of time, extending over the use of the equipment, this would balance out, and I do not think that there would be that sort of effect overall. The reform allows companies to depreciate equipment at the rate at which they wish to use and replace the equipment. By facilitating replacement at the most effective and most efficient rate, the new guidelines should tend to lower costs and increase profits over the long run.

Chairman PATMAN. I want to ask you about one statement in your prepared testimony. You mentioned about the level of interest rates on municipals, that it has been very satisfactory. Do you not think some of that is due to the fact that the commercial banks have gone into the market for municipals in a rather big way?

Secretary DILLON. Well, I think that that is very true. The commercial banks have done two things which are somewhat different this year than they have done in the past. They have gone into the market for municipals in a larger way than they have before, and also the larger commercial banks, the banks in the big cities, which in the past were not very much interested in the mortgage business, have gone into the mortgage market and have bought mortgages, which has had an effect on the mortgage market.

Chairman PATMAN. It was brought to our attention by Mr. Eccles, former Chairman of the Federal Reserve Board, who testified the day before yesterday, that the banks are going in for these tax-exempt bonds, and they are really buying them. You know, the volume has increased about 15 percent just during the past year.

Secretary DILLON. Since the first of the year it has increased very, very much.

Chairman PATMAN. Yes, sir. Mr. Eccles made the observation that a $3\frac{1}{2}$ -percent return on a tax-exempt bond is equal to a 7-percent return, in fact a little bit more, because with only a 52-percent tax rate, it would amount to a little more than 7 percent, as compared to a taxable bond. And that makes these bonds very attractive.