

lower rates of interest and competing more effectively for funds against other borrowers in capital markets. However, the exemption also reduces the progressivity of the Federal individual income tax, since it produces much bigger tax savings to those in high income tax brackets than to those taxable at lower rates. This is a relatively inefficient means of channeling aid: the Federal Government loses far more revenue than the States and cities gain in reduced interest costs.

Apart from the general question of interest exemption, and of immediate concern, is the use of so-called industrial development bonds. Through the use of these bonds, localities have passed to private industries the benefit of the exemption of their interest from Federal tax, in many cases without assuming any real obligation for repayment of the bonds. This questionable practice is becoming increasingly widespread, and the lack of any obligation by the locality authorizing the bonds permits proliferation without limit. The use of the Federal tax code in this fashion is inefficient and inappropriate.

Another fiscal problem concerns State taxation of corporate income. Since most corporate income is generated by interstate corporations, States must establish formulas to apportion the income assumed to be earned from business done in other areas. The formulas give various weights to such factors as location of plant, percent of payroll, sales destination, location of sales offices, and "origin" of sales. In 1966, after several years of study, the House Judiciary Committee recommended legislation that would require a uniform State formula based solely on two factors, property and payroll. The States have responded unfavorably to this proposal. As an alternative, additional Federal grants to the States might be used to persuade them to relinquish a tax which is more efficiently collected at the national level.

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Secretary FOWLER. Congressman Reuss, you will have an opportunity to deal with some of those problems, because in the President's economic message, he said that there will be a second tax measure which would come forward.

Representative REUSS. Right, but why have the first tax measure which will have the effect of—

Secretary FOWLER. Just by reason of the fact that experience has shown that there is a timing problem on loophole-closing tax measures. It is a very lengthy process. I would have no expectation that the Congress would be able to act with the promptness on that type of measure that it will on the surtax which carries out the thrust of the recommendations of the Subcommittee on Fiscal Policy which Representative Martha Griffiths chaired last year. The subcommittee report described an acceptable neutral type of pattern for increasing revenues which I think, if it is accepted by the Congress, could be accepted much more promptly and with much more dispatch than the other kind of measure so as to be effective for the entire fiscal year beginning July 1.

Representative REUSS. I would say, that the long day's battle on loophole plugging is not going to begin until the administration sends up its loophole-plugging package, and there is enough in the collected works of Stanley Surrey, sitting behind you, to get together a great package.

Secretary FOWLER. I have him very busy on lots of things, but you will have your package, Congressman Reuss.

Chairman PROXMIRE. Senator Miller?

Senator MILLER. Thank you, Mr. Chairman.

Mr. Secretary, as I understand it, our gold stock is down to a little over \$13 billion, and we need \$11 billion of this as backup for our currency. Is this substantially what the figures are?

Secretary FOWLER. My latest figures, at least as of December 31, show that the so-called free gold, which is what you have reference to, is \$3,213 million.