

industry would be further increased by the creation of such taxable municipal securities.

It does not appear that the continued use of tax-exempt municipal securities, as opposed to taxable municipal securities, would involve significant losses of revenue to the Treasury Department. As can be seen from the following table and the material that follows which was prepared by Mr. William Simon, Salomon Brothers and Hutzler, and Mr. Jim Lopp, Eastman Dillon, Union Securities and Company, among the likely large investors of these newly created securities are the pension funds and institutions which currently comprise the market for corporate debt.

NET ISSUES OF CORPORATE AND FOREIGN BONDS

[In billions of dollars]

	Year totals			
	1964	1965	1966	1967
Net issues.....	7.1	8.6	11.8	17.0
Net purchases.....	7.1	8.6	11.8	17.0
Households.....	— .8	— .3	1.2	1.8
State and local governments.....	3.2	3.2	4.4	6.7
Commercial banks.....	.1	— .1	.1	.8
Mutual savings banks.....	— .2	— .1	.3	2.0
Insurance.....	4.3	5.4	4.2	5.5
Life insurance companies.....	2.3	2.8	2.2	3.7
Private pension funds.....	1.6	1.5	1.9	1.0
Other insurance companies.....	.3	1.1	.1	.8
Finance N.E.C.....	.2	.5	.4	— .6
Rest of the world.....	.2	(1)	1.2	.8

¹ Less than 500,000.

Source: Board of Governors of the Federal Reserve System; Flow of Funds, 4th quarter 1967, Jan. 31, 1968, p. 16.

Of the \$17 billion net issue of taxable corporate debt in 1967, well over one-half of these bonds were purchased by investors who are subject to little or no Federal income tax. Precisely the same pattern is evident during the previous three years.

There are other major observations to be made with regard to the use of a Federal guarantee. First, if the Federal government did not guarantee these securities, it would lessen the degree of administrative responsibility placed upon the personnel of the Department of the Interior, since they would no longer need to make a determination that the issuing body was capable of paying off the debt. This risk would be assumed by the underwriting community.

Secondly, with a Federal government guarantee upon these securities, the market would have no need to concern itself with the underlying financial condition of the issuer. The decisions as to whether the community had overextended itself, had proper supervising personnel, needed to increase its revenues, adjust its tax base, etc., would have to be shared by the Federal government.

Under the present system, these economic decisions are made by independent financial analysts of competing underwriters and are not centered in any one particular person or agency. We strongly believe that the best interests of both the issuers as well as ultimate investors are better served by such a diversification of decision making.

This will be lost under a system whereby the Federal government guarantees each community's bonds, thus making the variation in interest rates very small, recognizing, as is the case with public housing bonds, there would be some variation between local government credits even with a Federal government guarantee.

For the above reasons, we believe that a system of regular bona fide tax-exempt municipal securities, with a debt service contract with the Federal government, will provide a superior credit instrument in the market. It can reasonably be expected to receive a lower net interest cost than would be the case in the absence of such underlying Federal support.

In conclusion, therefore, we would like to reaffirm our support of the basic proposal of Federal contracts to pay a portion of the debt service of State, county and municipal securities sold for sewage treatment facilities as a reasonable