means of solving the immense problems of water pollution. It would be a serious mistake for communities to set a precedent by waiving their sovereign right of tax exemption for any purpose.

Nevertheless, in the final analysis, the question as to the advisability of communities waiving their tax exemption is a political assessment which must be answered by State, county and municipal governments. As we have indicated, it is preferable to market these securities through the regular mechanics of municipal markets; however, if State and local governments should conclude that it is in their best interests to accept the proposals of this legislation and issue Government-guaranteed taxable securities, the members of our industry will certainly do their best to efficiently and economically underwrite such securities.

COMPARATIVE COST OF TAX-EXEMPT VERSUS TAXABLE METHODS OF FINANCING

This material was prepared by William E. Simon, a general partner, Salomon Brothers & Hutzler, in charge of their government and municipal bond departments. His firm's transactions totaled over $110 billion last year.

This statement will discuss briefly the comparative costs of tax-exempt vs. the taxable method of financing. Who is the consumer of the taxable issue and what is his effective tax rate? Mr. Krumm has already covered the advantages of the proven municipal tax-exempt method. Mr. Lopp will further enforce these arguments. My portion of the statement will concern itself only with comparative costs. Included as part of this statement are four charts labeled A, B, C, and D.

COMPARATIVE COSTS [1]

	Taxable	Tax exempt
Rate (percent)	6.5	4.875
Annual interest cost [2] to issuers	$65,000,000	$48,750,000
Less receipts from taxes on interest income (assuming 13.4 percent tax rates) [3]	$8,710,000	
Net cost [4] to issuers and Treasury combined	$56,290,000	$48,750,000

[1] Assuming $1,000,000,000 in Government bonds.
[2] Gross interest costs for taxable securities under the above rate assumptions would be $16,250,000 per $1,000,000,000 amount per year more than for tax exempts.
[3] However, tax on the interest income from the taxable securities would return $8,710,000 per $1,000,000,000 amount per year. There is obviously no comparable return on tax exempts.
[4] Thus there would be a net saving of $7,540,000 per $1,000,000,000 amount per year with tax exempts.

NET FUNDS INVESTED IN CORPORATE AND FOREIGN BONDS BY INVESTOR GROUP ARRANGED BY TAX BRACKET

Net volume of purchases of Corporate & Foreign Bonds

[Dollar amounts in billions]

	Total, 1966, 1967, and 1968	Percent contribution
Zero tax bracket:		
State and local governments	$18.1	
Private pension funds	4.4	
Total in zero tax bracket	22.5	56
1 to 20 percent tax bracket:		
Mutual savings banks	2.5	
Life insurance companies	9.1	
Total 1 to 20 percent tax bracket	11.6	29
21 to 50 percent tax bracket;		
Other insurance companies	1.3	
Commercial banks	.9	
Other finance	.1	
Households	2.1	
Rest of world	2.0	
Total 21 to 50 percent tax bracket	6.4	16
Grand total	40.5	100

Note: Average tax bracket: 13.4 percent.