Mr. TYSON. I do not know anybody who suggests that they should; they are.

Representative RUMSFELD. They are, and the problem is what is an alternative to it?

Mr. TYSON. What is the rationalization for making this the basis of policy, enacting policy which you know has this result?

Representative RUMSFELD. I guess the answer has come out in your questions and answers, and I must say I thought your comments on this were excellent. I do not know anyone who agrees that they should. The question is finding some alternative, which is, of course, one of the reasons for these hearings. Goodness knows that question is one that Senator Proxmire and others have pursued in these hearings and previously. It was on the minds of many involved in voting on the tax conference report. The Council of Economic Advisers gave statistics on it. It is not a happy prospect.

Mr. Hazlitt, did you note when Mr. Theobald said that income derived from whatever source must be subject to a progressive tax at the Federal level. Thus current practices, which give favored treatment to certain kinds of income, would be eliminated. He say that the author of the book explicitly proposes the elimination of favored treatment for capital gains and interest on municipal securities, interest payments, casualty losses income splitting, and so on.

What is your reaction to that?

Mr. HAZLITT. Well, of course, that covers a lot of territory. I would like to take up one of those items, and that is the elimination of tax exemption on bond income. Now, the U.S. Government, the Federal Government, for I do not know how long—I think it was under Franklin Roosevelt and goes back 35 years—Franklin Roosevelt said that the U.S. Government would not issue any more tax-exempt bonds. This was an act of self-denial. Meanwhile, however, the municipalities and the States have continued to issue tax-exempt bonds.

Now, the Congress has always had the power to ask for a constitutional amendment that would prohibit the issuance of tax-exempt bonds.

Representative RUMSFELD. I was asking a more basic question.

Mr. HAZLITT. I am just taking this one case as an example. The other thing that Mr. Theobald is proposing is that completely justified deductions should not be allowed. If a man pays out $10,000 in interest, that is a real outgo; it is not a fraudulent thing. He does not have it to spend.

Representative RUMSFELD. I do not think this says there is anything fraudulent. This is suggesting that these types of tax reforms would be—correct me if I am wrong, Mr. Theobald—but it is my understanding from reading it, that this statement says that these types of tax reforms would be a good thing for society. My question is do you see reasons why they would not be?

Mr. HAZLITT. I was just taking that as one example.

Suppose a man is not allowed to deduct the interest he pays on the mortgage on his house. Suppose he pays $1,000 interest on a mortgage and he is not allowed to deduct that. It is a real expense, because when he pays this, the income that is left to him is $1,000 less. Why ignore this?