

institutions, such as the World Bank or the regional development banks. Both of these approaches need further development and implementation through international agreement. Both will lead to more multilateralization of development finance, which should be more efficient, both in terms of raising the capital and in terms of channeling it where it can do the most good.

Finally, I should note two points. Both of these financial problems—domestic social welfare infrastructure and development finance—can be resolved only within a framework of a strongly expanding domestic and world economy. That is an absolute requirement to generate the savings and the tax revenues for the needed finance. And growing economies, themselves, need the thrust of dynamic new investment, which, itself, requires high savings.

REMARKS BY HON. STANLEY S. SURREY, ASSISTANT SECRETARY OF THE TREASURY,
BEFORE THE FIFTH MUNICIPAL CONFERENCE, INVESTMENT BANKERS ASSOCIATION,
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THE FINANCING OF NEW SOCIAL PROGRAMS—AND TAX EXEMPTION

The Investment Bankers Association is to be congratulated on staging this forum on "The Federal Government's Role in State and Local Financing—Taxable or Tax Exempt?" The topic is one of direct and important concern to many—the Federal Government, State and Local Governments, those who invest in securities, and those like yourselves who participate in the marketing of securities. Unfortunately, most discussions which involve the sensitive subject of Federal-State relationships and the super-sensitive aspect of that relationship—tax exemption for State and local securities—proceed with a maximum of emotion, accusation and platitudes and a minimum of hard, objective analysis. Your desire for a forum with just the opposite approach is commendable and I trust my remarks will be seen as in keeping with your desire—for they certainly are so intended.

At present there are about \$120 billion of outstanding State and local tax-exempt obligations and about \$15 billion in new obligations are being issued annually (for a \$9 or \$10 billion net annual growth). I am *not* discussing these obligations or the merits of their tax exemption. I am *not* here to turn back any clocks or reverse history. I am here to consider what will happen if the clocks suddenly start to race madly forward.

My remarks relate to the enormous increase in new issues of these obligations that now looms up before us and the effects of adding this new huge volume of tax-exempt obligations to the present market. My concern and my message can be briefly summarized:

The possible high level of new issues of tax-exempt State and local bonds over the next decade raises very serious problems for State and local governments and for the equity of our Federal tax system. This high level can come about under the enormous financing requirements of the vast social programs so vitally necessary to meet our domestic needs.

The basic problem is that piling more and more reliance on the tax-exempt privilege as a way of helping States and localities to meet these financing requirements creates a powerful buyer's market for tax exempts. The State and local governments pricing their bonds on the basis of this exemption as a consequence will get less and less for it—that is, they will have to pay closer to the market rates of interest on taxable bonds—and their financing costs must inexorably rise. At the same time, the buyers would still get the tax exemption with even greater tax savings.

Those who are anxious to preserve the strength of State and local governments in the Federal system should give serious thought to these problems.

We should all consider whether *new financing techniques* are available and appropriate to avoid these problems—techniques which at the same time, and I stress this, preserve the independence of action on the part of State and local governments in our national system to which the principle of tax exemption has contributed.

Projections of State-Local Credit Demands

Let us first consider the rate of growth of new State and local issues that looms ahead. The Joint Economic Committee in 1966 made a projection of the likely level of growth capital needs and thus of State and local bond issues through