We are also devoting every attention to the use of tax incentive to help solve the problems of the cities and of our disadvantaged citizens. We are examining closely some of the more promising approaches recommended by the President's Task Force on Taxation. We hope that means will be developed to use the potency of tax incentives, along with other programs, to enlist private capital and business ingenuity in this urgent effort.

We intend also to bring the whole tax system—State and local as well as Federal—under careful and searching examination. The issues involved are long run in nature and involve the strength of our domestic economy, our international financial position, the capacity to generate revenues to meet national needs, the appropriate distribution of revenues among different levels of government in relation to their fiscal responsibilities, and many other factors.

Among these issues are those of the coordination of Federal, State, and local taxes, an exploration of the role of value-added taxes used by a number of Western European countries, and similar issues of fundamental significance. We believe these matters should be carefully examined and we plan to discuss approaches to these studies within the administration and with congressional leaders in the period ahead.

Mr. Chairman, this concludes my statement.

Chairman PATMAN. Thank you, Mr. Walker. We will proceed with the questioning.

Senator Miller?

Senator MILLER. Thank you, Mr. Chairman.

Mr. WALKER. May I make the point that we have a division of labor in the Treasury Department. The international, financial, and debt management question are Mr. Volcker's area. My area is tax policy and certain aspects of domestic economic policy.

Chairman PATMAN. That will be helpful to us. We will include Mr. Volcker's statement in the record at this point.

PREPARED STATEMENT OF THE HONORABLE PAUL A. VOLCKER

Mr. Chairman, I appreciate this opportunity to accompany Secretary Kennedy and Under Secretary Walker on our first appearance before your committee. As Under Secretary for Monetary Affairs, a good part of my own time will be devoted to the balance of payments and international finance. I understand that you plan to devote a later meeting exclusively to those matters. Consequently, my brief remarks this morning will be directed toward some problems of domestic financial policy related to my responsibilities for Treasury financing.

Virtually my first official act upon my return to the Treasury three weeks ago was to announce the terms by which the Treasury would refund some $14½ billion of maturing debt. By necessity, those terms included the highest rates of interest available on a Treasury note or bond since the Civil War. As it turned out, even those record rates—6.42 percent for an 15-month issue and 6.29 percent for a seven-year—failed to attract much enthusiasm among potential investors. More than a third of the maturing securities held by the general public had to be paid off in cash.

That experience reflects in a concrete way the strains pervading the domestic credit markets as we took office. You are, I am sure, familiar with other signs of pressure and imbalances: for example, the relative shortage and high cost of residential mortgage money, the sharp increases in interest expense for our state and local governments, and the growing tendency of some lenders to require an element of equity participation before committing loan funds.

My purpose today is not to elaborate these facts. Rather, I would like to suggest how, in managing the Treasury's finance and debt, we might contribute toward restoring better balance in financial markets.