

Senator PROXMIRE. Although the loss average is less than 2.4.

Why should the banks be given these two special tax advantages?

Mr. WALKER. You are referring to the banks with the 2.4 and not the savings and loans with 6 percent.

Mr. PROXMIRE. That is right.

Mr. WALKER. Take the second one first. The history of the commercial bank bad debt reserve grew out of the depression, when losses sustained by commercial banks were many times the 2.4—even based on just the banks that survived, the only reliable figures—and that does not take into consideration the thousands of banks that succumbed in which you had very large losses.

However, before any of us came to the Treasury the approach taken for taxation of commercial banks in this area recognized—and there was quite a bit of opinion to this effect at the end of World War II—that we might continue to have recessions and depressions and big losses such as we had in the 1930's. So, the procedure that was followed was to permit commercial banks, since they are in the business of dealing and operating in debts, to set aside a tax-free accretion to bad debt reserves each year in order to gird themselves for the sort of loan losses they could expect if their economy should—

Senator PROXMIRE. That is the historical. Why is it justified now? I understand the history of it, but why is it justified in 1969?

Mr. WALKER. I am not saying it is justified now. I am saying that this is on the agenda of the House Ways and Means Committee to be studied, and it is also on our agenda.

I thought you asked me to explain why it is in existence.

Senator PROXMIRE. You were the chief executive officer of the American Bankers Association, and I know you are very expert in this area, and I just wanted to know whether or not you now felt, as of now, 1969, there was any real justification for that 2.4 percent.

Mr. WALKER. I think the development of the percentage bears very significantly on whether that is or is not a justifiable percentage, and I am trying to explain how it came into existence.

Senator PROXMIRE. Now, how about the proposal that Senator Kennedy made shortly before he was assassinated, and since then a number of people have supported it, that at least 20 percent of a person's income over a certain level, fairly high level should be paid in taxes, that we should have a system of providing—I think he suggested 20 percent, and some have even suggested as high as 50 percent for those with very high incomes. In other words, just a blanket provision for taxation, so that nobody is in a position of having a big income and paying *no* taxes.

Mr. WALKER. That would get at certain people that have the tax-exempt securities and the charitable deduction approach, perhaps, and it certainly should be considered. At the same time it does not get into the area of such things as percentage depletion and rapid depreciation of apartment houses where they do not have the net income.

This is a tricky area, when you start thinking about it.

Senator PROXMIRE. I am glad to get that modification of it, but I think we should plug them where we can and find ways of perhaps bringing others in.

Let me ask you this: You say in your statement that you would like to provide tax incentives as a way of getting a private industry