

approach, say, 25 percent or 20 percent of the taxable income would be the amount that would be tax free, and the amount above that would be subject to tax. And, then, of course, there is the variation of a reduced tax rate on the amount of—I am sure you are aware of the various types of approaches to this problem, but I just wanted to let you know that I do hope that you use the middle ground approach rather than an extreme approach, and I hope you will come up with a recommendation, because this is an area of great frustration on the part of the taxpayers I have talked to.

Mr. WALKER. We will examine all avenues.

I want to reemphasize also that it is an area of great complexity. And if you had several "tax shelters," without identifying any that exist, to remove tax shelter A without doing something about tax shelter B will simply send that money and income into tax shelter B. That must be considered in all these cases.

Senator MILLER. The beauty of the approach that I have suggested to you is that it does not make any difference which tax shelter the income comes from, if it exceeds 20 percent of the taxable income, it is going to be caught; if it exceeds the amount of the taxable income, it is going to be caught regardless of what kind of a tax shelter it comes from.

Mr. WALKER. But some tax shelters show no taxable income. For example, apartment building depreciation, if that is a tax shelter—and I am not saying so—may not show any.

Senator MILLER. But it may ultimately be that depreciation turns out to be capital gains subject only to the 25 percent rates. So, you have got an area of nontaxable income here.

Mr. WALKER. You raise a good point, but the fact remains that many of these people pay no income taxes today.

Senator MILLER. I would hope to find an approach that would be as simple and understandable to the general public as possible.

I would like to ask Mr. Volcker this question:

And if this has been covered, please tell me.

Last year, on the in-flow of funds, we had, of course, as you pointed out, a substantial investment by overseas investors in the American securities market. Can you tell me how much of the in-flow of funds was attributable to acceleration of payments by other countries on contracts here in the United States?

Mr. VOLCKER. I can't give you that figure offhand.

Senator MILLER. Was it significant?

Mr. VOLCKER. I do not believe so, last year. There has been some of this in the past in connection with military payments in particular. I would have to look at the particular record for last year, before I could answer that question. I would be glad to do that for the record.

Senator MILLER. I wish you would. I remember that it was not very long ago when West Germany, for example, accelerated its payments on contracts for military equipment, and this had a palliative effect; it was certainly just a borrowing type of proposition.

Mr. VOLCKER. That is right. I would have to look it up.

Senator MILLER. What other types of borrowing mechanisms were used that showed up this last year in the form of an in-flow of funds?

Mr. VOLCKER. You are thinking of the official transactions?

Senator MILLER. Yes.