

CHAPTER VII

THE CASE FOR TAX EXEMPTION

Comparatively little constructive argument has emanated from the defenders of tax exemption, their case consisting chiefly of qualification or denial of the arguments advanced in opposition to the exemptions. Certain minor arguments against the abolition of tax exemption, however, may be disposed of before we turn our attention to the real issues.

It has been argued that the proposal to abolish tax-exempt securities infringes the principle of state sovereignty. Up to this time arguments of this character have probably had little bearing on the development of public opinion, partly because interest in states' rights is at a low ebb, and partly because there is no real issue of sovereignty involved in the controversy. For the Federal government to levy taxes on the issues of a state, so long as there is no effort to discriminate in favor of other types of investment, does not impair the state's borrowing power or deprive it of any attribute of sovereignty.

The proposed constitutional amendment abolishing tax-exempt securities would have taken away from the states a special privilege which results not from sovereignty—we do tax the securities of sov-