

foreign states—but from their membership within the Federal Union. No truly sovereign and independent state objects to our taxing the interest paid on its bonds when held by our own citizens or by residents of this country.

Moreover, the states are free now to tax one another's securities, and state income taxes usually apply to interest paid by other states. It is difficult to see how state sovereignty would be impaired by Federal taxation any more than by mutual taxation.

As Secretary Mellon has said: ¹

The amendment would apply with absolute equality to the Federal government on the one hand, and to the states and political subdivisions on the other, and . . . would put exactly the same restrictions upon future borrowings by the Federal government as upon future borrowings by the states and their political subdivisions.

There is, however, a sectional aspect to the question. The plea of state sovereignty usually arises in connection with the conflict of interest between sections, and the present case is no exception. The Western and Southern states have a different stake in the tax-exempt security from that of the states in the Northeast. The West and South are still borrowing from the older, wealthier centers. The lending sections of the country are also the heavy income taxpayers. If tax-exempt securities are abolished,

¹Letter of the Secretary of the Treasury, to the Acting Chairman of the Committee on Ways and Means, December 21, 1922, published in *Tax-exempt Securities*, Senate Hearings previously referred to, p. 4.