

local public retirement funds from those of State and local governments.

2. *Municipal Security Financing: 1946-65*

(a) *Trends*

State and local government debt outstanding increased from \$15.6 billion at the end of 1946 to \$44.8 billion at the end of 1955, a rise of \$29.2 billion, and to \$100 billion at the end of 1965, a further rise of \$55.2 billion.¹⁵ As detailed in the following two tables, among identifiable investor groups commercial banks have become the largest source of municipal security financing, accounting for 28 percent of the net expansion of State and local government debt between 1946 and 1955 and for 47 percent of the growth during 1956-65. Fire and casualty insurance companies accounted for 14 percent of the net flows during 1947-55 and for 13 percent during 1956-65, personal trust funds accounted for 12 percent during each of the decades, while "individuals and others" (excluding personal trust funds) declined in relative importance from 25 percent during 1947-55 to 17 percent during 1956-65.

During the past 4 years, 1962-65, commercial banks materially stepped up their acquisitions of municipal securities (to a large extent attributable to the effects of the Federal Reserve amendments of Regulation Q in 1961, 1963, and 1964, that raised the maximum interest rate that may be paid on commercial bank time deposits) so that they accounted for 74.9 percent of the net expansion of municipal debt holdings in these years. Owing to the dominant role played by commercial banks as a buyer of municipal securities during 1962-65, the share of the market accounted for by "individuals and others" dropped to 3.7 percent, and the share of fire and casualty insurance companies declined to 9 percent. On the other hand, personal trust funds accounted for 13.4 percent of the net increase in municipal debt outstanding during 1962-65.

Over the past two decades commercial banks have experienced a steady increase in the proportion of loans and investments represented by holdings in municipal securities, with the ratio rising from 3.8 percent in 1946 to 12.1 percent in 1964. Analysis of the municipal security investments by commercial banks¹⁶ finds (a) a growing interest in revenue bonds, (b) a rising trend (especially in recent years) in investments in long-term (maturities over 10 years) municipal securities, and (c) a decline since 1960 in the proportion of municipal security holdings¹⁷ represented by holdings of speculative issues or issues in default.

Owing to their predominant orientation toward mortgages, mutual savings banks have not purchased many municipal securities. Their greatest postwar activity in municipals occurred during the mid-1950's, when municipal securities accounted for about 2 percent of assets. Since then, there has been a marked decrease so that by the end of 1965 mutual savings banks held \$320 million, or only 0.55 percent of assets. Analysis of their investments in municipal securities

¹⁵ Supplement table C4 traces yearend holdings of State and local government obligations by significant identifiable investor groups for each of the years 1946-65.

¹⁶ Detailed in ch. 21.

¹⁷ Of commercial banks subject to examination by the Federal Deposit Insurance Corporation.