

funds. These decreases will be due to the cessation of additional investments in these bonds and by a conversion of municipal securities into other types and higher yielding securities, a continuation of the trend in effect during the last 10 years. * * * We may look for a continuance of the downward trend in the holdings of the bonds by these funds resulting from sales or maturities." Thus, while assets of the public retirement funds are expected to rise from \$32 billion in 1965 to \$85 billion in 1975,² their holdings of municipal securities may be expected to decrease by about \$0.2-0.3 billion per year during most of the coming decade.

6. STATE AND LOCAL GOVERNMENTS

Between 1955 and 1965 total assets of State and local governments (excluding public retirement funds) expanded from \$32.9 to \$53.4 billion, a rise of 62 percent. Over the same period total security holdings (total assets less unemployment compensation funds, cash and deposits) of these State and local governments grew from \$14.2 billion, or 43 percent of total assets, to \$26.5 billion, or 50 percent of total assets. During this decade total security holdings increased by 87 percent. In contrast, holdings of municipal securities rose from \$2.5 billion in 1955 to \$2.7 billion in 1960, but declined thereafter to reach \$2.2 billion in 1965. The ratio of municipal securities to total assets decreased over the decade from 7.5 percent in 1955 to 4.1 percent in 1965, while the ratio of municipal securities to total security holdings dropped from 17.3 to 8.3 percent over the same period.

Over the 6-year period, 1960-65, total assets of State and local governments (excluding public retirement funds) grew at an average annual rate of 7.4 percent, and total security holdings expanded at an average annual rate of 8 percent. Assuming the same rate of growth over the decade, 1966-75, it is estimated that State and local government assets may reach over \$100 billion at the end of 1975, of which over 50 percent will be accounted for by holdings of securities. Despite these large expansions of asset and security holdings, it is believed that relatively little, if any, will be invested in municipal securities, because the tax exemption accorded to these securities is of no value to State and local governments. (See discussion in ch. 26.)

Over the past 5 years, State and local government holdings of State and local government obligations declined at an average annual rate of \$124 million. When allowance is made for the fact that during these 5 years State direct loans to local governments expanded by about \$100 million, the average annual rate of decrease in holdings of marketable municipal securities was thus about \$150 million. After allowance is made for a moderate expansion of the State direct loan programs, it is estimated that State and local governments will decrease their holdings of State and local government obligations by about \$100 million per year during the decade 1966-75.

² Daniel M. Holland, "Private Pension Funds, Projected Growth" (Occasional Paper 97 of the National Bureau of Economic Research, 1966) estimates that in 1975 total assets will amount to \$74 billion.