The volume of industrial development bonds issued has risen sharply in the last few years. Since 1960, issues have averaged more than $100 million a year. The great increase in dollar amount of industrial development bonds is largely attributable to their use by large national companies for new buildings and equipment.

Further impetus to the growth of industrial development financing came in 1963 when the Internal Revenue Service ruled (63–20) that nonprofit corporations may, under certain conditions, issue tax-exempt industrial bonds. This has allowed municipalities in States which do not have legislation authorizing industrial development bonds to make use of this type of financing. Thus far, several issues have been made under the ruling in North Carolina and Arizona, the largest for the American Sugar Co. ($22,250,000 first mortgage bonds, series A of the Industrial Development Corp. of Maricopa County, Ariz., August 1, 1964).

2. BOND YIELDS

Buyers are attracted to industrial development issues for two basic reasons: (1) they are a good credit risk, and (2) they yield a high interest rate (some of the smaller issues having found local markets). Assuming reasonable credit, the most outstanding attraction of industrial development bonds has been their high yields. These rates have served to break down many objections to this form of financing. The spread between good general market bonds and good industrial development bonds has been decreasing, but the difference is still substantial, as shown by the following table.

TABLE 3.—*Comparative yields (selected Alabama issues)*

Date	Issue	Rate 20-year bond	Bond buyer 20 bond average	Differential
		Percent	*Percent*	
August 1957	Decatur-Fruehauf	5.00	3.57	1.43
March 1961	Cherokee-Armour	4.75	3.48	1.27
September 1962	Opelika-U.S. Rubber	4.25	3.10	1.15
November 1962	Mobile-Diamond Alkali	4.15	3.05	1.10
May 1963	Decatur-Fruehauf	4	3.08	.92
August 1963	Carbon-Hill-Cluett Peabody	3.80	3.12	.68
August 1965	Scottsboro-Revere Copper	4	3.36	.64

Bond dealers have been very successful in creating markets for this type of paper. More than one-third of all industrial development bonds issued have been placed with insurance companies. A good part of the remainder has gone to banks. As these issues have become more widely known, private individuals have also become an important group of buyers.

3. LEGAL ASPECTS

Industrial development bonds have caused little difficulty in Federal courts for they easily satisfy the requirements of the 14th amendment. The problem has been more difficult in State courts. All States require that the borrowing and taxing powers of the State conform to the public service doctrine, but more importantly, almost all States prohibit the use of State or local funds to aid a private party.