Prime long bonds are, of course, only one segment of the municipal bond market. Different sets of calculations would apply to lower quality or shorter maturity bonds, but the principle illustrated would be the same. Prime long bonds are used as an illustration of trends and relationships throughout the first part of this study because they are uniform in quality and maturity and their past yield history is readily available. Lower quality bonds and shorter maturity bonds are discussed at the end of this study.

Savings Flows According to Tax Bracket

The above table suggests that municipals were and are a veritable bonanza for all investor groups in the corporate bracket or higher. To understand why the net yield of municipals was so high when tax exemption was seemingly so valuable to many investors, it is necessary to look at the volume and direction of the flow of new savings in recent years through the capital markets in terms of the applicable tax brackets. This is summarized in Table II below.

TABLE II

Net New Funds Invested in Bonds and Mortgages by Investor Groups Arranged by Tax Bracket

1960-64 Annual Average: Billions of Dollars

	No Tax	20% Bracket	Corporate Bracket	Above 48% Bracket	Total
Foundations and Endowment Funds	?				?
Public Retirement Funds	$2.3				$ 2.3
Pension Funds	1.8				1.8
Savings & Loan Associations		10.2			10.2
Mutual Savings Banks		2.9			2.9
Life Insurance Companies		5.4			5.4
Fire & Casualty Insurance Companies			.9		.9
Total Non-Bank Institutions .	4.1	18.5	.9	0	23.5
Com'l. Banks (Long-Term Funds Only)			7.4		7.4
All Institutions	4.1	18.5	8.3	0	30.9
Private Investors & Misc. (Direct Inv. in Bonds & Mortgages) ...	?	?	?	?	5.0
Total					$35.9

(The tax brackets used are estimated averages. Within such groups as life insurance companies, savings banks, etc., there is a great variety of effective tax brackets, some higher and some lower than the estimated averages; some in these groups pay no tax.)