

not as important as an estimate of the future taxability of the community and the cost and availability of credit.

We will now turn to the history of tax-exempt yields over a long period of years, the ratio of tax-exempt yields to taxable yields, and the reasons for changes in this ratio. Next we will consider the future of this ratio and say a word about the future of the entire yield structure. Finally we will discuss the yields of lower quality and shorter maturity municipals.

### *The History of Municipal Bond Yields.*

Appendix A shows the history of high grade long-term municipal bond yields from 1900 to 1966 as estimated by several acceptable sources. These are annual averages or annual highs and lows.

Chart I on page 12 summarizes prime long municipal yields in terms of annual averages from 1900 to date. Yields are inverted so that the line provides a price index of constant 30 year bonds. Chart I also summarizes the yields of prime long corporate bonds in the same way so that the eye can quickly compare these two markets. Since these are all annual averages, the chart obscures or minimizes important inter-year and cyclical fluctuations, but it shows the major trends clearly enough.

The chart shows that all yields tended to rise from 1900 to 1921. They then fell most of the time until 1946. They then rose most of the time until 1960, stabilized for five years, and then recently started to rise again.

The chart shows that municipal yields almost always fluctuated in the same direction as corporate bond yields, but between 1930 and 1955 the municipal yield fluctuations were much larger than the corporate yield fluctuations. This was, no doubt, due to the growing effect of the tax structure. In the 1940's the bull market in municipals far exceeded the bull market in corporates. Again after 1946 the bear market in municipals far exceeded the bear market in corporates. Since 1955 however, the two markets have fluctuated similarly.