tutions. But these higher yields would themselves discourage many municipal projects and, thus, reduce the volume of demand. Therefore, volume is not apt to increase dynamically.

I shall make no effort to forecast changes in tax rates. Let us suppose they decline. At present the two markets equate at the 30% bracket, while the corporate bracket is a long way off at 48%. Therefore, reductions in the tax rate would still leave municipals far more attractive to corporate taxpayers than taxables. For this reason, moderately lower tax rates probably would not by themselves divert much funds, or raise the ratio much.

Suppose tax rates increase. This would, of course, enhance the attractiveness of municipals to corporate taxpayers, but the margin of attraction (tax rate vs. yield ratio) is today so great that these institutions are already putting all the bond funds they very well can into municipals. Therefore, tax increases by themselves probably would not lower the ratio importantly.

More important than tax rate changes probably will be changes in the volume and direction of the flow of new savings and the related question of internal revenue regulations. Monetary policy action or changes in the rules which would divert commercial banks away from municipal bonds would have an unfavorable effect on the municipal market which has recently been dependent on banks for three fourths or so of its new funds. If bank purchases were reduced from $5 billion a year to $1 billion, for example, other buyers for the $4 billion of bonds would be hard to find. This could mean seeking to sell more municipals to the 20% bracket investors. This would raise the ratio to 85% and probably to 90%.

I seriously doubt that our regulatory authorities would find it advantageous to place municipal financing under such a permanent handicap. However, monetary authorities, in times of inflationary expansion of total bank credit, will find it necessary for temporary periods to force banks