

A. SUPPLY OF CAPITAL FUNDS

The commercial banking system is looked to increasingly as a source of funds for financing State and local public works. Empirical information on the extent of financing directly by the acquisition by banks of obligations of private, nonprofit organizations for hospitals, schools, nursing and retirement homes, community centers, and other local public facilities is not available. Much of this is in the form of various classes of loans or warrants not separately categorized in bank recordkeeping and reporting. This kind of direct financing is important, if not in aggregate terms, then certainly in particularly circumstances where the more formal types of flotations and securities marketing are less appropriate.

There is somewhat more information available on the activities of commercial banks as buyers and sellers of State and local obligations used to finance local public works, but even here the data leave much to be desired. Also, banks, in their various fiduciary capacities and as investment counselors, probably exert considerable influence in the market for State and local securities but empirical data are fragmentary.

Commercial banks are much more important, however, as investors of their own resources in State and local securities, than as dealers, fiduciaries, or investment counselors. The holdings of State and local obligations by commercial banks since the end of World War II have greatly increased, not only in absolute terms, but also as a proportion of total State and local debt outstanding. Table 4 indicates this expansion. From holdings of \$4.1 billion in 1946, commercial bank holdings steadily increased to \$36.6 billion by 1965. As a percentage of total issues outstanding, the proportion increased during the period from 26.1 to 37.4 percent. Note, however, that most of this latter increase occurred in very recent years, when there has been a heavy growth of time deposits.

TABLE 4.—*Holdings of interest-bearing State and local obligations commercial banks, 1964-65*

[Dollars in billions]

Year (June 30)	State and local obligations held by commercial banks	State and local obligations outstanding	Bank holdings of State and local obligations as a percentage of State and local obligations outstanding
1946.....	\$4.1	\$15.7	26.1
1947.....	5.0	16.6	30.1
1948.....	5.6	18.4	30.4
1949.....	6.0	20.5	29.3
1950.....	7.4	23.8	31.1
1951.....	8.6	26.7	32.2
1952.....	9.9	29.2	33.9
1953.....	10.6	32.3	32.8
1954.....	12.0	37.4	32.1
1955.....	12.8	42.8	29.9
1956.....	13.0	47.6	27.3
1957.....	13.4	52.1	25.7
1958.....	15.8	56.8	27.8
1959.....	17.0	62.0	27.4
1960.....	16.8	66.4	25.3
1961.....	18.8	71.7	26.2
1962.....	23.2	80.1	29.0
1963.....	27.9	85.9	32.5
1964.....	31.5	91.3	34.5
1965.....	36.6	97.8	37.4

Source: U.S. Treasury and Federal Deposit Insurance Corporation.