such deposits and they increased their holdings of State and local obligations considerably. As a result State and local yields declined in 1962 and direct individuals' investments in State and local obligations amounted to only $0.4 billion. Again it seems that declining yields caused individuals to reduce their investments in these obligations. Individuals also experienced net losses in stock market trading during 1962; but it is not known whether this affected their taking of State and local obligations. With yields on State and local bonds rising moderately in the subsequent 3 years, individuals increased their net acquisitions of State and local obligations considerably during each year. The 1964 and 1965 estimates on individuals' net acquisitions of State and local obligations amount to $2.6 and $3.7 billion, respectively. This does not indicate any lessened demand for State and local security holdings as a result of the individuals' income tax reduction in 1964.

Investments in State and local obligations accounted for 6 to 9 percent of total financial portfolio investments by individuals during the three postwar subperiods shown in table 6, but the share of State and local obligations in the total market value of individuals' financial portfolios was a much smaller percentage. Capital appreciation on corporate stockholdings was an important factor in increasing the total market value of individuals' financial portfolios. State and local obligations appear to have accounted for 4.9 percent of total financial portfolio holdings at the end of 1945 and for 3.5 percent at the end of 1965.

Prospective Investments

The investment behavior of individuals during the postwar period indicates that investment flows respond to changes in yields among alternative financial assets. This sensitivity can be detected in year-to-year changes in the allocation of individual saving and it probably would be magnified if yield advantages among different investment outlets were to alter over a prolonged period of time. The volume of demand for State and local obligations among individuals over the next 10 years thus is subject to considerable flexibility depending on absolute and relative yield levels, individual income tax rates, and the extent of fear of inflation among investors. Demand conditions by individuals for State and local bonds, in turn, will continue to have an important bearing on the behavior of market yields for State and local securities.

If the following assumptions remain applicable, the demand for State and local security holdings by individuals is likely to expand considerably; but it would be quite hazardous to project specific quantitative estimates:

(1) State and local securities maintain the relative position in the yield structure for financial instruments which they have had in recent years, and their income remains tax exempt.

(2) Individual income tax rates are not significantly reduced.

(3) Inflation psychology does not pervade the capital markets.

Under these assumptions, the demand for net purchases of State and local securities by individuals would be sustained by the large annual flow of individuals' savings into financial investments and by the rapid increase that can be expected in the number of taxpayers