times 60 percent of total costs or 0.10 times \$450,000, which equals \$45,000.

The revised calculation of opportunity costs then would read:

Actual interest cost paid by Government on new debt	\$50,000
Taxes forgone on income from displaced investment:	
Property taxes	17,000
Corporation taxes	56,000
Personal income taxes	9,000
Sales and excise taxes foregone as a result of displacement	45,000
Total opportunity cost	177,000

In this case, the presence of a mere 10 percent excise or sales tax has changed the social opportunity cost of the funds in question from 13.2 to 17.7 percent.

My next comment concerns the report's division of displaced investment into just two categories—corporate and noncorporate. In principle this breakdown could be extended to many different sectors. And even though a finer breakdown may appear to be an unnecessary refinement at this early stage of the process of developing a better measure of the opportunity cost of public funds, at least one additional investment sector—owner-occupied residential housing—definitely deserves to be included. The reason is that this type of investment is subject to very different tax treatment from other noncorporate investment. Instead of paying personal income taxes on the income accruing to their housing, owner-occupiers receive tax relief on account of such income. Thus, if \$1 million of housing investment were displaced by Government investment, the calculation might look like this:

Actual interest cost paid by Government on new debt	\$50,000
Taxes forgone on income from displaced investment:	
Property taxes	15,000
Personal income taxes	−16,667
Total opportunity cost	48,333

If the Government bonds carried an interest rate of 5 percent and the relevant marginal personal tax rate was 33⅓ percent, the tax adjustment here would actually lower the opportunity cost of funds obtained through the displacement of residential construction to 4.83 percent, rather than raising it to 13.2 or 17.7 percent as occurred in our previous examples where business investment was displaced. The importance of owner-occupied housing construction in total investment in the United States, and the known sensitivity of such construction to changes in capital market conditions make it quite essential to take explicit account of the peculiar tax status of this kind of investment when estimating the opportunity cost of public borrowings.

I turn now to a comment on the report which is of comparatively minor significance, and is introduced here only for the sake of completeness. The report assumes that all of in increase in Government borrowing is reflected in displaced private investment, and none in increased private savings. Since increased borrowing from any source tends to increase interest rates, a rise in savings will presumably result if they display a positive responsiveness to changes in interest rates. Since the available evidence suggests that the responsiveness of savings to changes in yields is at best small and possibly zero, the assumption made in the report is certainly a defensible one. Nonetheless

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