

I shall here sketch how one would measure the social opportunity cost of \$1 million of funds raised through increased saving:

Actual interest cost paid by the Government..... \$50,000
Less additional taxes on interest from increased savings..... 16,667

Total opportunity cost..... 33,333

In this example, the social opportunity cost of funds coming out of newly generated saving is only 3.3 percent.

I now turn to an illustrative calculation of the overall social opportunity cost of capital, after the fashion of that presented on pages 25 and 26 of the Comptroller General's report. For this purpose I shall assume that funds obtained at the expense of corporate investment have an opportunity cost of 15 percent—lying between the 13.2 percent and the 17.7 percent of our two examples—that those obtained at the expense of investment by noncorporate firms have an opportunity cost of 8.5 percent,¹ that those coming at the expense of housing investment—owner-occupied—have an opportunity cost of 4.8 percent, and that those generated by increased savings have an opportunity cost of 3.3 percent. I shall further assume the following pattern of "sources" for the funds obtained.

Source of funds	Percent of incremental borrowings	Relevant opportunity cost (percent)	(1) × (2)
	(1)	(2)	(3)
Displaced corporate investment.....	50	15.0	7.50
Displaced noncorporate investment.....	25	8.5	2.13
Displaced owner-occupied housing construction.....	15	4.8	0.72
Newly stimulated savings.....	10	3.3	0.33
Overall opportunity cost.....			10.68

Note that in spite of my having introduced two additional sources, with very low opportunity costs, my resulting figure is substantially higher than that emerging from the report. This is in part due to my having used 5 percent rather than 4 percent as the basic interest rate on Government bonds, and in very small part due to a somewhat higher before-tax yield assumed on corporate and noncorporate investment. But in the main the difference is attributable to my taking property, sales, and excise taxes into account in the calculation. These taxes are lumped together in the national income accounts under the classification "Indirect business tax and nontax liability" and they account for the overwhelming bulk of that category. For 1967, the national income accounts show that category as amounting to almost \$70 billion, or well over 11 percent of the approximately \$600

¹ This can be obtained as follows:

On \$1 million of investment displaced from the noncorporate sector we have:

Actual interest cost paid by Government on new debt..... \$50,000
Taxes forgone in income from displaced investment:
Property taxes..... 15,000
Personal income taxes..... 10,000
Sales and excise taxes forgone as a result of displacement..... 10,000
Total opportunity cost..... 85,000

I assume here a rate of return of 8 percent net of property taxes, which results in \$80,000 of taxable income displaced, compared with \$50,000 of taxable income generated by interest on the Government bonds. Sales and excise taxes are assumed to be at an average rate of 5 percent with annual sales of \$200,000 forgone as a consequence of the diversion of investment.