

tures from Chapter II's idealized picture, in which we assumed the savings of individuals to be the source of capital, with investors paying the market rate of interest on the requisite loans.³ Households financed their purchases of automobiles in large part through installment credit, with the total outstanding increasing \$4 billion over the year, an amount which is about half the net investment in cars after depreciation. About \$15 billion of \$17 billion of residential construction was offset by an increase in mortgages,⁴ but the \$18 billion of other durables was financed out of income for the sector as a whole. The Department of Commerce reports total personal saving to be \$17 billion, but this figure does not reflect the borrowing done by households in the form of mortgages. If we subtract money borrowed in this way, we find that net personal saving is at most \$2 billion or \$3 billion. That is, the household sector—which in our theoretical model was to provide the savings for the business sector—actually saved little more than it invested in its own durables.

Of the \$30 billion of real investment carried on by corporations, \$15 billion came from depreciation and amortization allowances and another \$9 billion from retained earnings. Only the remaining \$6 billion was financed by new securities—\$2 billion in common stocks and \$4 billion in bonds and notes. And of this total, public utilities issued all but \$400 million of the stock and \$2 billion of the bonds and notes. There was also an increase of bank loans of \$4.5 billion, and an increase of other liabilities of \$1.5 billion, but this was more than offset by the increase in customer receivables. Thus the business sector as a whole, other than public utilities, borrowed no more than 8 or 10 per cent of the funds for its real investment.

Unincorporated business, which is typically small, and for which our figures are much more sketchy, invested about \$4 billion in plant and equipment. Much of the investment of this sector, which consists primarily of retail and other service establishments, consisted of the construction and improvement of stores, which were financed largely by mortgages and bank loans. But the sector as a whole withdrew relatively little from the capital market; repay-

³ See W. A. Salant, "Saving, Investment, and Stability," *American Economic Review*, May 1956, pp. 42-54.

⁴ This figure includes mortgages issued on old houses.