

ments of old loans and mortgages roughly offset new ones.

The picture in agriculture is quite similar; \$4 billion of construction and agricultural implements was financed principally through bank loans and mortgages, but the repayments of other farmers were at least equal to the borrowing.

Finally, \$12 billion of construction was carried on by government. The \$9 billion share of state and local government led to the issuance of \$5 billion of new securities, but surpluses run by other state and local bodies reduced the net deficit of the sector to \$1.5 billion. The federal government invested at least \$3 billion in construction, a figure which omits much military work, but this was entirely financed out of taxes, and there was a net cash surplus of \$2.7 billion for the year. Foreign investment for the year was negative, with repayments exceeding new investments by \$300 million.

It can be seen from these figures that the net borrowing of the various sectors is less than 10 per cent of the total capital formation for the economy as a whole. This is significant. On both the lending and borrowing side of the capital market we need to take a second look at the factors that determine the level of investment and of saving for each group of decision-makers.

The significance of the small amount of net borrowing or lending of the sectors depends, in part, on the degree to which the lenders provide funds for the borrowers within the same sector. To some extent, there is a common capital market for all sectors, in which some personal, business, and government savings are commingled through the activities of financial intermediary institutions. But, at least in the case of the household sector, we find the capital flows primarily within the sector. Of the \$15 billion of mortgages, savings and loan associations acquired \$5.4 billion; life insurance companies, \$3 billion; mutual savings banks, \$2.4 billion; individuals, \$2.4 billion; and commercial banks, \$1.7 billion. All but the last of these sources administer the savings of individuals and, even in the latter category, much of the money available for mortgages springs out of individuals' time deposits. As for the \$5 billion of installment and other credit, the household credit corporations which handle the largest part of this paper raise their own funds by sale of their notes to insurance companies and other financial intermediaries who draw the bulk of their funds from individual savings.