

For the other sectors, the case is not so clear. Corporate securities draw on a wide variety of sources. Unincorporated business is financed in part by bank loans—which, to a considerable extent represent money created by the banking system—and in part by loans from individuals who are willing either to invest in the business or to lend the owner money because of ties of friendship or family. The securities of state and local governments, because of their tax-exempt feature, are particularly attractive to individuals with very large incomes, and thus can be assumed to draw on individual savings. Capital for agriculture is supplied in the form of mortgages by banks and insurance companies and in the form of loans by commercial banks.

Interest Rates in the American Economy

There is no one interest rate—capital is offered on a very wide range of terms. Bonds, notes, and other debt instruments of governments and corporations find a ready market at rates ranging from 2 to 5 per cent, depending on the terms of the loan and the credit standing of the issuer. Mortgages of good quality are financed at rates between $4\frac{1}{2}$ and 6 per cent, though this rate is kept low by government guarantees of a large part of the total. Other consumer credit is expensive, ranging from 5 to over 25 per cent, with the typical automobile installment loan held by a large credit company costing 9 to 12 per cent. Yet the sales finance companies are able to raise their funds at rates below 4 per cent. The difference between their lending and borrowing rates is explained by the high cost of administration and collection, the pooling of many small, risky loans to reduce risk, and substantial profits. Bank loans to corporations and unincorporated business may cost from 3 to 6 per cent, depending on size, the region of the country, and the credit standing of the borrower, but their availability is strictly rationed to each firm. Loans to agriculture, while only slightly more expensive, are even more severely rationed to each farmer. Most personal saving, in the form of savings accounts, insurance, and pensions, receives a return of 3 per cent or so, with investments in common stocks the only substantial exception. And stock ownership is still restricted to a relatively small