

monetary policies were moderate, endeavoring to keep the economy within a narrow range of balance, without drastic inflationary or deflationary measures. Consumer indebtedness reached an all-time high, but the strong upward trend in the use of credit suggests that the debt position of 1955 will be typical for future years.

How wide then is the range of error of our estimates? We believe that the actual level lies within a range of 1 per cent of our estimates for the general economic conditions postulated for our analysis. This statement is based both on judgment and upon experiments in which those assumptions most open to question were varied. Combining all reasonable assumptions that would raise the rate yields an estimate of 7 per cent; conversely, all plausible assumptions that would produce a low rate yield an estimate of 5 per cent. It is our conclusion that the probable value for the economic conditions postulated lies between 5 and 6 per cent.

AN ALTERNATIVE: A TIGHTER MONETARY POLICY

So far, our analysis has assumed that the expenditures for water resource projects would be offset by taxation sufficient to preserve balance in the economy. Let us also consider briefly the case where monetary rather than tax policy is used to restore equilibrium. An expansion of the federal program would then have to be offset by a tightening of monetary policy of sufficient degree to release the quantity of resources needed for the program. To estimate the social cost of capital under this assumption, it is necessary to discover which economic activities would be curtailed by the diminished supply of credit.

It is unlikely that a change in monetary policy would be a permanent method of compensating for a change in expenditures, because this would reduce the remaining potential of this stabilizing weapon. But the initial offset might well be in this form, subsequently to be converted into a change of tax rates.

We shall not undertake a full-scale quantitative effort to measure the incidence of monetary policy. The kinds of assumptions required would be considerably more arbitrary than those of our tax study, and the rates of return that would be earned by the marginal borrowers to whom credit would be denied could not be estimated with sufficient accuracy. However, we can get some idea