of the order of magnitude by listing the sectors affected by monetary policy and the rates of return prevailing in them.

Bank loans are the traditional, perhaps most important, form of credit that can be reduced through monetary policy. Loans to business, which totaled $31 billion in 1955, were made at nominal average rates of 4.2 per cent.[41] While we cannot estimate what rates of return would have been earned on curtailed loans, we know that the rate expected by the borrower must be at least 4.2 per cent. And it is probably more, in view of the somewhat higher interest rates charged to marginal borrowers and the return above borrowing cost which must be expected as an incentive to take the risk of the investment. Loans to individuals totaled $17 billion and were made at a wide range of rates—from as low as 4.5 per cent to over 10 per cent, depending upon the purpose, the collateral, and the credit worthiness of the individual. The marginal loans that would be refused because of a tighter monetary policy would have borne rates well above the minimum of the range.

The market for mortgages would also be tightened by monetary policy, both through a toughening of the terms and diminished availability of funds. Total outstanding mortgages were in excess of $130 billion, but the impact of the policy is concentrated on only a portion of the market. The rates on this category of credit largely fall between 4½ and 6 per cent and would apply to the mortgages that are precluded by the change in the monetary policy necessitated by a public investment. Debt issues of state and local governments would be curtailed, bearing very low interest rates, but often used to finance investments yielding higher returns, e.g., schools, hospitals, etc. Other forms of credit—such as brokers' loans on securities, corporate borrowing from sources other than banks, etc.—would also bear part of the impact, but the effect would be less important quantitatively.

These figures suggest that the social cost of federal capital raised in this manner is roughly of the same order of magnitude as the cost of releasing the necessary resources through taxation. Depending upon the exact combination of weapons employed by the

[41] "Business Loans of Member Banks," *Federal Reserve Bulletin, op. cit.,* April 1956, pp. 328-40. This rate makes no allowance for the common practice of requiring minimum account balances, which raises the effective rate of the loan by as much as 1 per cent.

98-940 O—68——9