

monetary authorities and the circumstances at the time, the rate might be somewhat higher or lower; but the difference in cost under the two types of policies is moderate. The extent to which the resources will be drawn out of investment rather than consumption will differ more broadly, however.

AN ALTERNATIVE: SEPARATING RISK-BEARING FROM PURE INTEREST

So far, we have treated risk as a source of market imperfection, and have considered differences in interest rates caused by varying risk premiums to lead to a misallocation of resources. In the model we employ, a correct allocation of resources would require that the rate of return on marginal investments of all kinds be the same. If it were not, the total return could be increased by switching investments from fields with low marginal returns to fields with higher returns. In the real world, where there are differences in risk, a higher return is expected to prevail on the riskier investments, with part of this higher return a risk premium. This is a reward for taking risks, and may be needed to attract capital into risky uses. Yet our model would consider such differences inefficient; we assume that the riskiness of the returns on an investment do not detract from their contribution to real national income. That is, the satisfaction derived from the national output is independent of the total amount of risk taken on the nation's investments.

In the context of public investments, there is considerable justification for this assumption. From the point of view of the economy as a whole, the risks on investment are far smaller than the sum of risks of individual investments. Where one undertaking in one locality may fall far short of its expected outcome, other undertakings will succeed beyond expectations, and to some extent the failure of some assures the success of others. There is much cancellation of risks since the insurance principle of pooling reduces greatly the relative dispersion of outcomes for the nation's investment program as a whole. And, from the point of view of the long-run growth of the country, the increase of national income produced by risky investments on which a high return is to be earned, whatever the reason, will be greater than the increase of income to be expected from low-risk, low-return investments.