

Stated another way, if we were asked to determine the industries in which we should be making loans, we could start in the industries in which the risk was relatively low, and then go on to industries having higher risk, which would, as the programme expanded, cause the cost to rise.

However, loaning money to a high risk firm is not necessarily a poor action to take. The Small Business Administration is not supposed to be a bank, it is supposed to be a device to aid economic growth. So we can, in fact, accept quite a high risk if the potential growth is correspondingly high.

In performing our benefit analyses, therefore, we evaluate the growth rates of different industries and rank them according to potential growth. Our next step is to calculate the curve shown in Chart 9 which is essentially an approximation to a marginal efficiency of capital curve.

The decision rule for establishing the size of each programme is that of allocating money to each programme up to the point where the ratio of marginal cost to the marginal efficiency of capital is equal for all programmes. This rule is based on some fairly well-known elements of economic theory and simply says that we continue to allocate each dollar so as to get the maximum growth for dollar expended. This is, of course, quite different than minimizing the loss rates on our loans.

Professor Weisbrod's study of high school dropouts is also worth reviewing briefly. In grossly oversimplified terms, the study was concerned with determining the costs and benefits of a dropout prevention programme in St. Louis (Chart 10). It was found that the resource cost for each dropout prevented was approximately \$6,500; the benefits in terms of increased lifetime income were only \$2,750.

It should be emphasized, however, that there are a number of significant but intangible factors for which no dollar values could be assigned. These included improved self-esteem, increased social and political consciousness, decreased costs of crime and delinquency, and inter-generation benefits.

These intangible factors preclude any simple statement that the programme isn't worth pursuing. Further, the analysis is influenced by the fact that employment opportunities for non-white dropouts were not appreciably different than those for non-white students who completed the high school course. If we consider our objectives somewhat more thoughtfully, we might wish to broaden the definition to include the creation of employment opportunities as well as the prevention of dropouts.