

He went on to say :

A second area that is mentioned in Bulletin A-76 that is still much discussed in meetings of industry-government representatives is the economic arithmetic to be employed in determination of whether to make or buy, and the particular item here that is in controversy is the cost of money. (See p. 175.)

I wondered how the Budget Bureau feels about this, this kind of criticism and what your response is and how it might be amended to take account of this kind of criticism?

Mr. HUGHES. First, of course, we are aware of Mr. Gainsbrugh's criticisms and comments. Perhaps as he indicated, we did talk with the National Industrial Conference Board before the issuance of the Circular. That is not to say the circular had in any sense its approval, but we did endeavor to seek the views of the wide range of concerned interests both inside and outside the Government. We do not regard the circular, read in its entirety, as any weaker in terms of its emphasis on the utilization of private sources, wherever possible, rather we regard it as more explicit in setting forth the circumstances under which private procurement is desirable. In addition to stating the general policy of private procurement, the circular points out that there are many circumstances in which even if government operations might be more economical short-run, there are real advantages in procurement in the private sector because of the risktaking involved, the possibilities of obsolescence, greater flexibility of private procurement and so on. So we would disagree with Mr. Gainsbrugh's statement and we would urge the subcommittee's attention to the circular to see what its view is. We just feel that the circular is equally strong with respect to its emphasis on procurement from private enterprises.

COST OF MONEY

Chairman PROXMIRE. These are two points he made. One was the cost of money. How do you differentiate? The cost of money to the Federal Government obviously has to be imputed as compared with the cost of money within the private sector, which is very definite, real, and often a very big factor.

Mr. HUGHES. Well, the whole problem of comparing the costs, Government-wise versus private, is exceedingly complex and certainly the interest costs are part of it. Generally speaking the objective of the circular is to identify true costs in the private sector as distinguished from true costs to the Government.

Now, the fact that the Government does obtain money, at least under some circumstances at lower rates than are possible in the private economy, gives the Government an advantage, yet this seems to us under the terms of the circular an advantage which the Government should recognize when it evaluates whether it should make or buy a particular product. There are other areas of argument. I think the interest rate differential is not as difficult a problem in some respects as some of the other areas.

FOREGONE TAXES

Chairman PROXMIRE. I can see that this would be a controversy. One other area which he thinks is most important and that is the area of foregone taxes as he puts it. He says how shall taxes be treated