

of NASA's to take advantage of the flexibility, the capability that we discussed earlier, that industry has in some situations.

Chairman PROXMIRE. Go ahead.

INTEREST RATES—COST OF MONEY, GOVERNMENT AND PRIVATE

Mr. HUGHES. Another question identified in the subcommittee's report relates to interest costs—Should interest rates for cost comparison purposes be those in the private sector or the rates paid by the Government? Under provisions of the revised circular, Government costs will continue to include interest for any new or additional capital to be invested based upon the average rate of yield for long-term Treasury bonds, as shown in the current Treasury bulletin.

We believe this to be appropriate since, if the Government made the investment, this would be the rate that would actually apply. While we recognize that long-term money costs in the private sector are higher, this seems to us a differential which logically should be recognized in implementing the provisions of the circular.

Representative RUMSFELD. Isn't that a third link in this chain I have been building?

Mr. HUGHES. The cost of money is cheaper to the Government and therefore the Government costs would be lower on that account. The answer to your question is "Yes." Cheaper money tilts the scale somewhat in the Government's favor.

Representative RUMSFELD. Somewhat? It tilts it—period.

Mr. HUGHES. Yes; but the question is, When we have added up all of the components, have we made a fair comparison? That is our objective.

Representative RUMSFELD. I have mentioned two others.

Now, what is the cost of money to the Government? Is it the interest rate we are going to pay?

Mr. HUGHES. The one we are using is current long-term yield.

Chairman PROXMIRE. It is lower than you are borrowing at now; isn't it?

Mr. HUGHES. Current long-term yield.

Chairman PROXMIRE. Long-term yield.

Mr. HUGHES. Yield on long-term bonds.

Chairman PROXMIRE. What is it precisely—the coupon on long-term bonds— $3\frac{1}{4}$ percent?

Mr. HUGHES. Not the coupon. It is the average long-term yield—would be a composite of current rates and old rates and would be below current rates. I think the average yield would be above 4 percent, but not as high as the price of money today.

Mr. RUSSELL. Mr. Hughes, if we were making a cost comparison analysis today, we would use the rates shown in the current Treasury bulletin, and that rate would be 4.97 percent.

Chairman PROXMIRE. That is more like it.

Mr. RUMSFELD. I do not know. It just seems to me that—from a decisionmaking standpoint—the figure that would have to be paid in the private sector would be a more accurate reflection on that decision-making process than the figure you authorize to be used in your circular.