I understand, television companies that are on the air have a rate of return before taxes at around 40 percent—tremendous.

The average, though, works out to be around 12 percent. The point is that when you take money out of the economy that is returning 12 percent and invest it in a Government activity that is earning 3 percent, you would seem to have an action that would reduce your rate of growth and reduce it sharply and result in a malinvestment of funds.

I hasten to add right away for those who say, if you argue like that, you are not going to have any education, the areas of Government that have the greatest return, as I see it, are the human resource areas—education, the poverty program have excellent returns.

Mr. HOFFMAN. I would agree that one of the reasons we regard these programs as among our most urgent programs is precisely because they do have such high economic and social returns.

But to return to your point, it seems to me that there are two distinct questions. One is whether it is possible to consider the average rate of return over productive investment as a meaningful figure. I would say it has meaning. To the extent that funds are drawn out of the private investment, it does reflect the opportunity cost of those funds. And I am not arguing for ignoring risk in connection with Government programs; I am simply saying that the return averaged over investment projects as a whole does reflect some evaluation of risk; that there are kinds of risks that are not averaged out, even from an overall social point of view, and that the risk element either has to be included in the rate of return used by Government or handled explicitly in the costs and benefits.

I would argue for the latter course.

Now, there is another point, too. Not all funds withdrawn by Government come from investment in private industrial capital. So there is the question of the relevant rate of return on funds which, in effect are drawn out of consumption.

Chairman PROXMIRE. Certainly when you have a situation such as we have at the present time, where we are trying hard, or at least many people are trying hard, to put the brakes on the economy, to slow down inflation, to keep it from becoming too expansive and we pass a tax increase to do that, certainly at a time like this it would seem unwise for us to invest money in the Government sector which yields so much less than it does in the private sector.

At a time when you have idle resources, when, as you say, you are not displacing your manpower or your other resources, then I can see a strong argument for going ahead on the basis of recognizing still what your opportunity costs are and what your discounting is, but going ahead anyway, because you want to use idle resources.

Mr. HOFFMAN. Yes, sir; I would agree with that entirely. I personally believe that an opportunity cost approach is the right approach to take. I think the question is how to go about estimating the relevant opportunity cost—for example, I think one would have to take into account the fact that funds are drawn from consumption as well as investment in estimating the rate—and then how to handle risk as a component of the rate of return.

Chairman PROXMIRE. I argue with your risk concept, but anyway, how would the Bureau of the Budget proceed in telling you to make explicit allowance for risk and uncertainty? For example, take a water