

value the present highly. The willingness of households to borrow at interest rates in excess of 10 percent is a strong kind of evidence. I doubt that a rate of social time preference is defensible in a democratic society which is dramatically different from the interest rates revealed to be preferred by consumer saving and borrowing actions.

The theoretical argument has been advanced that the people may choose to redistribute income to future generations collectively—reflecting low social time preference—while expressing high time preference in their private actions. In other words that what they choose to do together, knowing that all will do it together through the tax system, they may choose to be more farsighted than they will in their individual family planning. While not refutable by logic, it is a fragile position. There is no evidence that it is true that people have such collective preferences; governments in underdeveloped countries have been known to misjudge the wishes of their people in taking this point of view, planning on a very capital intensive basis with low interest and then finding great local objection to the fact that the projects do not pay off.

(2) Even if one accepts the argument of collective desire to redistribute income to the future—that is, even if one grants the theoretical argument in total, it is still very dubious that public investments are the most desirable method of accomplishing this goal. A higher rate of taxation reducing the Government deficit, lowering interest rates and permitting a higher rate of capital accumulation, whether private or public, is a far more direct and efficient method of making provision for the future than to provide a privileged access to cheap capital for a few kinds of economic activities which have no extraordinary growth potential.

#### IV. SOME PRAGMATIC CONSIDERATIONS

Before deriving a sound criterion for Federal public investments, that is, before we finally come to the hard issue of what is the right rate, if there is such a thing, let me set down a few postulates that will underlie my conclusions.

1. *The rate of return on capital in the United States is high.* We are able to keep the economy prosperous through fiscal and monetary management of aggregate demand; fluctuations around our natural growth trend are becoming smaller. If you compare the 1950's with the 1960's, the variations are smaller; if you compare prewar with postwar, the fluctuations are smaller. The rate of advance of technology remains very great; the computer—probably the greatest innovation since the introduction of the automobile 50 years ago—assures further rapid technological progress.

The recorded rates of return on capital are high in most major sectors of the economy. The only exception I can think of are railroads. The market rates of interest, which reflect long run forces of supply and demand for capital, are high and will probably remain so. As the Vietnam war draws to a close and is, at last, financed through higher taxes, the interest rates will diminish somewhat. But it is very unlikely that interest rates will fall to the plateau that prevailed in the early 1960's, when unemployment was  $5\frac{1}{2}$  percent for 5 years and prices were stable, when the rate of investment was low and the Government deficits small.