

billion of final-goods spending by the private sector. Property taxes alone, at around \$40 billion, outstrip the yield of the corporation income tax, and sales and excise taxes, at around \$30 billion, amount to about 5 percent of private-sector acquisitions of final goods and services. These are far-too-important components of our tax structure to be left out of account in the exercise of estimating the opportunity cost of public funds.

Let me emphasize that the exercise just completed is illustrative, and not the result of the long and careful research it would take to come up with a thoroughly defensible estimate of the opportunity cost it seeks to evaluate. However, I am convinced that the order of magnitude is probably correct, and that it is doubtful that further research along the same lines would modify the 10.7-percent figure by more than, say, 2 percentage points—that is, the result of such research would probably be an estimate somewhere in the range between 8.7 and 12.7 percent.

At this point let me express a general caveat concerning the distinction between the “overall cost to the economy” of Government borrowing, and the “cost to the Treasury” concept, elaborating upon my introductory comments in this regard. It is all too easy to identify what I have called “Taxes forgone in income from displaced investment” plus “Sales and excise taxes forgone as a result of displacement” with the “net change in tax revenues resulting from added Government borrowing.” This would be a convenient identification if it were only true, but unfortunately it is not, which complicates the analysis a bit. The designation “Taxes forgone on income from displaced investment,” and its counterpart for sales and excise taxes are the correct ones, but the net change in tax revenues resulting from added Government borrowing is likely to be a different figure. The difference stems from the fact that the displacement of some private-sector investments is likely to raise the yield of capital that is already in place, and of those current investments that are not displaced by the added Government borrowing. As a consequence, tax revenues stemming from these sources are likely to be higher than they would be in the absence of the added borrowing.

If, as a consequence of added borrowing, the yield rises on capital which would in any event be present, the result is in effect a transfer from the consuming public in general to the owners of capital. Given our tax structure, a part of this transfer will be retransferred to the Government. But it would be totally incorrect to count extra revenues of this type as part of the benefit of added Government borrowing, without taking into account the loss to consumers that they reflect. When the changes in the positions of consumers, owners of capital, and the Government are evaluated together for transfers of the type under discussion, the end result nets to zero. What consumers lose through such transfers is gained by owners of capital or by Government; the transfers therefore produce no increment in overall welfare.¹

Finally, I turn to an issue posed by the work of Professor Eckstein in “The Social Cost of Federal Financing.”² Professor Eckstein there

¹ I follow a longstanding convention of cost-benefit analysis in placing the same social valuation on an extra dollar received or given up by any group.

² Ch. 4 in John V. Krutilla and Otto Eckstein, “Multiple Purpose River Development” (Baltimore: The Johns Hopkins Press, 1958). (See p. 82, this volume.)