Professor Harberger is right, that the tax approach requires you to postulate a specific set of tax changes. I suppose if the Government did an official calculation, it would not be able to reassess each year what the next tax change would be, it would have to take some average of the tax system, where the revenues actually come from on the average and assume some change based on average revenues.

Chairman PROXMIRE. Is it not true that you have the same kind of problem on rate of return? Does that not vary all over the place?

Mr. ECKSTEIN. Yes; but if you take the average of a tax system as the cost, if you assume that the money is raised in proportion with the tax system, you have identified the sources of the money; you then have to estimate only once what the return on capital is in those sources. So it is a computation that is not easy, but I did such a study in 2 months in the summer of 1956 when I was asked the question, What is the opportunity cost of Federal capital? The Government could do that study very well, and I think with reasonable precision.

Let me stress one other point. The results are fairly insensitive to small changes in assumption. At the time I did it, I postulated two kinds of tax models, one which would have emphasized consumption and the other which would have emphasized investment. I thought at the time, one is a Republican tax change and the other is a Democratic.

Chairman PROXMIRE. Which one is the Democratic, the consumption?

Mr. ECKSTEIN. It emphasized consumption. That was back in the mid-1950's. We have all come a long way since then.

Chairman PROXMIRE. We have not reversed our roles, though, have we?

Mr. ECKSTEIN. Not totally.

The results were within a quarter of a point of each other. All of these models are weighted averages of the actual returns. The difference between Harberger's estimate and mine is not really due to his use of a borrowing rather than a tax model, it is the assumption about the fraction of resources that comes out of the corporate sector.

The average rate of return in the corporate sector is on the order of 15 percent; in manufacturing, it is even higher.

Chairman PROXMIRE. Is it that high before taxes?

Mr. ECKSTEIN. Yes.

Chairman PROXMIRE. Then it includes utilities and railroads, the whole thing?

And this would be over a period of substantial time?

Mr. ECKSTEIN. The average, even including railroads, must be close to 15 percent. In manufacturing we average more than 20 percent.

Chairman PROXMIRE. You say this is true of the period between 1948 and 1968?

Mr. ECKSTEIN. Yes; it has its ups and downs because of recessions, but it is on that magnitude. My model extracts a smaller share of resources from manufacturing than Harberger's model. It is a scientific judgment. I would like to see it settled by doing as good a study as you can of it. I believe that somehow, the corporate sector gets its capital and exploits its good investment opportunities, and if you take resources from them one way, they get their capital through borrowing or by cutting down dividends disbursements. If you trim the 50-