Mr. ECKSTEIN. I think so. I would share that judgment. You would, of course, find people generally emphasizing that you ought to consider social goals, you ought to consider benefit measurements. There are many other dimensions of the problem. Economists do not believe all Government actions are strictly to promote Government efficiency, or that the Government is in the business of maximizing profits on these projects. What they would say, I believe, is that it is on the benefit measurement side, on setting social goals in a quantitative way and pursuing them rationally; that is the area where you ought to think of the broader perspective, not in the choice of interest rate.

Chairman PROXMIRE. The interesting thing said by Mr. Fred Hoffman of the Bureau of the Budget was that the 4⅝ percent, which was championed by the other two, Mr. Caulfield and Mr. Holum, who was speaking for Secretary Udall—he said this rate was not inconsistent with an estimate of the risk-free social opportunity cost capital over the whole economy, but it is an absolute minimum estimate to this rate.

Mr. ECKSTEIN. There is no way of raising 4⅝ capital in this economy. If you go to the capital market and offer 4⅝ percent, they will not let you in the door.

Chairman PROXMIRE. That brings me to another question I was going to ask a little later. Let me ask it now. This relates to the notion that you have an inflationary element involved here. The Water Resources Council defended reliance on the current yield of Government securities observed 2 years ago, with a 4⅝ determination. This is defended on the grounds that more recent observed rates are too high because of inflation expectations. Does this approach seem theoretically correct or reasonable to you?

Mr. HARBERGER. Let me speak to that point, Mr. Chairman, because I have spent a fair part of the last 10 years in Latin America, where rates of inflation of 20 percent and up have not been uncommon. It is indeed true that in a market economy, inflationary anticipations can be incorporated into the interest rate and you find in places like Chile and Argentina interest rates of 20 and 25 percent, which are that high simply as a reflection of inflationary anticipations. Under those circumstances, it would be necessary to come to an estimate of the so-called real interest rates; that is to say, an interest rate adjusted downward for inflationary anticipations.

However, I believe that the extent of inflationary anticipations in our present structure is very minor in comparison with the differences between the Government bond rate and the yield of capital in the private economy, and, to put it another way, very minor in comparison with the weight of the tax adjustments that the Comptroller General's report and my own statement consider to be the major component of the difference.

Chairman PROXMIRE. Very minor, but is it sufficient, conceivably, to justify 4⅝ percent as an absolute minimum estimate of the rate for so-called risk-free social opportunity costs?

Mr. HARBERGER. I would say that 4⅝ percent is lower than what I would call the absolute minimum; therefore, even more of an absolute minimum.

Mr. ECKSTEIN. Whatever the reasons may be, Senator, the interest rate structure is higher. The interest rate is a price by which the economy operates. So private investment decisions are made on the