basis of higher interest rates. As a result, the returns required for the productive investments in the private sector must substantially exceed the actual interest rate, not a price-corrected interest rate.

It may well be, for example, if you evaluate a human investment project, that you would have to include a realistic wage projection into those future earnings and not just a productivity projection.

Chairman PROXMIRE. This is a matter of accurately computing your benefits, really?

Mr. ECKSTEIN. So there is a question of symmetry. You cannot assume one thing on the cost side and another thing on the benefit side. You only really confuse the planning process by creating a synthetic situation on the cost side. The fact of the matter is that the interest rates in this country are an important element in resource allocation, and the interest rates, whatever their reason, are far more than 4⅝.

Chairman PROXMIRE. But the argument by Mr. Caulfield is that we are in a period which, as you defined in your paper, is much more inflationary now than it was in the period 1960–65. The idea was to avoid rapid ups and downs and, therefore, we should look to a more stable period which presumably we could return to, rather than this temporary period now that we are in, when you are making investments over a period of many, many years.

Mr. ECKSTEIN. That is a long-term judgmental question about the outlook on interest rates. I have looked into that question some and this is my judgment on it: The interest rate structure moved up about 2.1 percent from the plateau of the early sixties to the peak of a few months ago. The question is: How far will these interest rates recede toward that plateau when Vietnam is over, now that the Federal Government financing is straightened out? It is my judgment, which may be quite wrong, but it is my judgment that the interest rates will recede by perhaps as much as 75 basis points, or three-quarters of a percent. The Government bonds have already receded 50 basis points because of the dramatic change in the Federal financing needs.

So I would think it would be a mistake to give a very heavy weight to the average of the early 1960's, when unemployment was 5.5 percent. After all, we are not going to settle for that over the next 10 years as an average. It also did assume that industrial prices were absolutely stable, which does not seem to be in the cards right away, either.

So I do not recommend that we base the interest rate computation on the very peak wartime rates of December 1967 and briefly in May of 1968. That would not be reasonable.

But I do not think one can justify a large further decline in the assumption about the interest rate from the present levels. You could argue for a fall of another quarter of a percent or half a percent as wartime circumstances and the current inflation. But that seems to me what the most prudent man would project.

Chairman PROXMIRE. Now, on the assumption, then, that we arrive at a different kind, or at least a different figure for the so-called risk-free social opportunity cost of capital, not 4⅝, but some other figure, assuming you build on that, it would still seem to me to be necessary to use some kind of explicit adjustment of benefit and cost streams to allow for the risk and uncertainty that is in these projects, because,