

the benefits of particular projects the benefit that they have in absorbing unemployment and still use a high discount rate. The inclusion of the extra benefit arising from the employment of unemployed resources would improve the prospects of a project being approved.

Now, the second thing that happens is, as Professor Eckstein pointed out, in times of recession and depression, the general level of market rates goes down. But, that fall in market rates is not a fall which carries over the entire life of a project, 20-, 30-, 50-year project, and the appropriate way of taking into account that fall is to lower the discount rate for the immediate years but not to lower it for all of the later years.

Quite a complex analysis is involved in this sort of thing, but in general when you are dealing with a short-range phenomenon of unemployment, you allow it to create extra benefits if your project is employing unemployed resources. Similarly, if your short-range phenomenon is a drop in general market level of interest rates, you allow that to influence your use of capital in the immediate future. But if the capital that you put into a project is going to be tied up for 20 or 50 years, you do not want to allow the short-term phenomenon of a low-interest rate to influence your discounting over the entire life of the project. Just the discounting corresponding to the years during which this low-interest rate is expected to prevail.

Chairman PROXMIRE. Do you want to comment?

Mr. ECKSTEIN. Well, I should add one footnote to that, though. Even if it is a long-lived project, if it is built during the recession, it is being built when the capital has little opportunity cost. The answer to your question, is, "Yes"; we are thinking in the 3- to 5-percent range.

Chairman PROXMIRE. Most of these projects, these water projects and others, take a number of years to build. They are not built in a year or 6 months. You cannot say that we have either a situation of, say, shortage of labor resources available or shortage of capital resources available on the one hand, or say that we have excessive unemployment because under the Employment Act, under our experiences that we have had under it, the progress we have made, I would agree with you that we are not going to have five and a half percent unemployment, that no party could stand it, and we recognize we cannot stand it.

One of the members of this committee has written to me protesting very strongly about changing the discount approach to water projects. One of the arguments that this man makes is that in the present calculations of benefits, we overlook the increased profits of the businessmen who are operating in the area and that this is an oversight and this is one of the reasons why he says you can justify a lower discount rate.

No. 1, is this a fact, that we do overlook profits consistently?

No. 2, should we include them? Is this justification for a lower discount rate?

Mr. ECKSTEIN. Well, historically we did count stemming benefits which are the profits of processors and we counted induced benefits which are the profits of the people selling to the farm. I had not been aware that the progress on reforming benefit-cost standards had reached the point where we no longer counted these kinds of benefits but I could—