

Chairman PROXMIRE. Do you count this as progress?

Mr. ECKSTEIN. In a sense—this is another set of issues. You cannot answer that, all the capital that goes into processing industries would have been idle. It would have earned some other return.

Chairman PROXMIRE. Are you also saying perhaps the business that would go to the people in a particular State, say in Wisconsin, because we have a new water project, might come from business in another State, so that increased profits for the people in Wisconsin might be decreased profits for the people in Minnesota or Illinois or something like that?

Mr. ECKSTEIN. Yes. It is very difficult to show that locating this activity near this project is all additional activity, or additional employment, or additional profits.

Chairman PROXMIRE. Suppose you can show that it is. Suppose you can show it is something new. To the extent that it is would you then say the profit should be recognized as part of the benefits?

Mr. ECKSTEIN. Yes. Then, you could compute the benefits of that original—

Chairman PROXMIRE. It is your understanding they are.

Mr. ECKSTEIN. I have not attempted to follow it in the last year or two, but it was my understanding that there was still some counting of it.

Chairman PROXMIRE. Mr. Harberger?

Mr. HARBERGER. Mr. Chairman, I think there is a sort of a standard approach to this in the theoretical literature which runs essentially as follows: Suppose that a power dam is built, and that as a consequence of that dam there arises in the neighborhood an industrial complex, which means a lot of investment, a lot of employment, and a lot of income generated. Let us suppose that investment in general in the economy has a yield of 10 percent. If investment in a particular plant near this power dam has a yield of 15 rather than 10, the extra 5 can be attributed to the powerplant but not the whole 15. And by the same token, if labor resources locate themselves near the dam, and in those industries they earn \$4 an hour, where in alternative opportunities in the economy they would earn \$3, you can attribute the benefits of the extra dollar an hour to the project, but you cannot attribute the whole \$4 an hour.

Chairman PROXMIRE. I would like to ask you gentleman now about something that has troubled me very, very much and see if there is any rationale at all in the economic profession or on economic theory grounds for the discrepancy we now have in our Federal agencies in applying discount factors.

The Comptroller General's report, with which I am sure you are familiar, showed the variation which grows from 3 percent, in fact, zero in some cases, a few, not many, but 3 is not uncommon and three and an eighth as we know is common, three and a quarter, three and an eighth, for the big public works investment, all the way up to—well, it is 10 percent for much of the Defense Department which represents a very large part of our total investment, and it goes up to 15 percent in some cases. In the Interior Department itself it varies from 3.1 to 12 percent.

Is there any justification for this variety? Would it be proper for the Congress to insist on a uniform discount rate for all agencies with-