

proportion of savers, who receive an income yield of only 4 per cent, but who have been receiving large capital gains.

*Measuring the Social Cost of Public Capital:
The Method of this Study*

The task of discovering the true social cost of the capital devoted to water resource development under actual conditions is much more difficult than if our theoretical model applied in a straightforward way. The model determines one interest rate for each period, a rate which indicates both the opportunity cost of capital in other fields and the rate at which consumers are willing to give up present income for a future income stream. In reality, there are many interest rates for both borrowers and lenders, and we are not free to fasten upon any one of them for our purpose. Yet the sound formulation of public policy requires some clear idea about this social cost. Use of a rate which is much too low may result in the waste of the nation's capital in a project yielding less satisfaction to consumers than if left in its alternative use. Use of an excessively high rate will leave water resources underdeveloped as compared to other resources in the nation's economy. For the typical problem of financing public investment by taxation, we, therefore, need to derive an appropriate estimate for the social cost of capital.

Our method will take account of the actual structure of capital flows in the United States. First, we shall try to determine where the tax money that provides the capital used for federal resource development actually comes from—that is, the incidence of the marginal tax dollars. This requires quantitative study of the revenues produced by different taxes, the persons and organizations who pay these taxes, and the extent to which taxpayers are able to shift their tax liabilities to others. It also requires that we assume in what proportion the various taxes would be increased were the program to be expanded, or which ones would be cut in the event of contraction. Once we know the sources of the money, we can proceed to the second stage and estimate what value attaches to these funds in their alternative uses.

When government imposes taxes in order to finance public investments, it levies a compulsory loan or forced saving on the