Our analysis necessarily is confined to small changes in expenditures and taxation relative to the over-all levels of the federal budget. Large tax changes, such as a 30 per cent reduction in income taxes, would lead to such substantial shifts in consumers' decisions and in the rate-of-return schedules of business that assumptions of the present relationships between incomes, prices, interest rates, and rates of return would no longer be valid. There might be effects on consumers' incomes which would convert borrowers into savers, effects on the total amount of saving and of investment which might alter and shift the interest rate structure, and changes in the relative prices of consumer goods and capital goods which would result in a shift from investment to consumption in the private sector. Since all of water resource development absorbs little more than 1 per cent of the federal budget, any tax changes made possible by changes in this program would be so small as to be truly marginal; no limitation to the applicability of our analysis to this field is imposed by these considerations.

As with other criteria of economic efficiency, our measure abstracts from changes in the distribution of income. We view the public investment as a loan by society to itself in order to build certain physical investments. That is, we assume that it does not matter to whom benefits and costs accrue. In fact, much of the cost is usually borne by individuals who do not benefit from the investment, so that the distribution of income is changed. If we attached a different value to a dollar of cost or benefit for different groups, our efficiency measure would need to be modified. In the present context, the value of the addition of a dollar to the future income stream is assumed to be the same for all taxpayers and beneficiaries. And if we go beyond the measurement of cost and compare it with benefit, we make the additional assumption that who receives the benefits and costs is a matter of indifference. These are ethical judgments which each person is free to accept or reject. Insofar as our interest is focused on the increase in total national income and on the efficiency of particular programs in promoting this objective, this assumption serves as a means of isolating this facet of the problem from redistributive issues.[6]

[6] For further discussions of this question, see the last sections of Chapters II and III. In the water resource field, this value judgment has been made explicit by the Congress in the Flood Control Act of 1936, where it is specified that benefits must exceed costs for a project "to whomsoever they may accrue," in order for a project to have economic feasibility and to be eligible for authorization.

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