A FINAL COMMENT

Our statistical analysis has provided an estimate which is designed to reflect the social cost of capital raised by federal taxation. We defined our concept of social cost in terms of the opportunities foregone in the private sector of the economy, either because of curtailed investment or of curtailed consumption. According to our results, if an efficient allocation of resources is the criterion, only those public investments that can produce a rate of return equal to the opportunity cost—or a rate of 5 to 6 per cent—should be undertaken. In operational terms, this would require that an interest rate of that order be used in the evaluation of projects.

Acceptance of this conclusion, however, requires that the exact meaning of the notion of efficiency in this context be made clear. As we pointed out in Chapter II, efficiency is a relative concept dependent on a specific distribution of income. An arrangement which is efficient with one distribution of income may be inefficient with another. The set of demands resulting from one income distribution will not be identical with the demands generated by a different income distribution, and so the prices which lead to efficiency in one case will not be appropriate to the other.

In considering the efficiency of an interest rate, this interdependence takes on particular significance. The interest rate indicates the relative value of output realized at different points in time, including the relative values for different generations. When we accept an interest rate determined by the preferences of the present generation—as we do in our quantitative models—we implicitly accept the time preference of the present generation of decision-makers. Children and unborn generations have no vote in the market place. With the power of the ballot distributed differently from the power of the purse, the community—when acting collectively through the political process—may decide on a distribution of consumption among generations different from the distribution it indicates through its saving behavior. There is no logical reason to give priority to one judgment over the other; our economic analysis must presuppose that the distribution of income and consumption implicit in the efficient allocation of resources is acceptable to society. Should an ethical choice be made through the political process to distribute more of the total consumption to future generations, our opportunity-cost measure of the interest