tive is to increase the amount invested every year and to put the funds into those lines of activity in which the rate of return is greatest. In this way, the contribution to future output is maximized and, should the time profile of output made possible by the investment place too much of the output in early years, an appropriate share of it can be reinvested. A series of reinvestment cycles, each at a high rate of return, will make a greater contribution to the welfare of future generations than investment in one very durable project which yields a low rate of return. It may be possible that the federal government is limited in the fields in which it can employ the desired extra investment; that resource projects yielding low rates of return must be undertaken because of a lack of better opportunities. But this argument holds only if the additional ethical judgment is made that the extra investment must be carried on under federal aegis.

There are other reasons for using a low interest rate. It may be a means of subsidizing new regions in a manner designed to promote their growth to maturity. In some instances, the low interest rate helps to justify projects needed as stand-by capacity for defense purposes. Or it may be a means of increasing the economy's rate of growth for the sake of preserving a lead over the Russian economy. But in these situations, the low interest rate serves to obscure the true issues. The public will be better informed and will be able to come to a more soundly based judgment if the costs of meeting these purposes are made explicit.

Note to Chapter IV

We present a brief formal derivation of the model employed to measure the social cost of capital drawn from consumption.

Let $C_l =$ consumption expenditure of individual l in the present period,
$S_l =$ net saving of l in the present period,
$Y_l =$ disposable income of l in the present period,
$i_l =$ interest rate faced by l for his marginal saving-borrowing decisions,

for Economic Development and the Theory of Intertemporal Welfare Economics," *Quarterly Journal of Economics,* February 1957.