

Our next witness is Mr. Lynn.

Mr. Lynn, you have a substantial statement, I see. We would be delighted to have you summarize it or present it in any way you see fit.

**STATEMENT OF LAURENCE E. LYNN, JR., DEPUTY ASSISTANT SECRETARY OF DEFENSE (ECONOMICS AND RESOURCE ANALYSIS)**

Mr. LYNN. Mr. Chairman, I would like to read comments from my statement to support Dr. Enthoven's testimony.

The commonsense of using an interest rate concept in government investment decisions is this: The Government should obtain a rate of return on its investments at least as large as the value of the consumption and investment opportunities private citizens must give up. Therefore, the Government should assess itself an interest charge on the funds it needs that is equal to the opportunity cost of these funds to private consumers and investors.

Returns to Government investments should be large enough to cover both principal and interest. If the Government ignores these opportunity costs and undertakes project with relatively low rates of return, then society as a whole—public and private—is not receiving the maximum attainable value from its resources; the general welfare will be lower than it could be. In fact, Government agencies should deliberately design their investment projects with their rate of return in mind.

Establishing and enforcing appropriate discounting procedures should not only lead to wiser investment decisions but encourage the design and development of better investment projects as well.

An important analytical question is, how should the Government be assumed to finance its new projects, and how do consumers and investors share in providing the resources; that is, how does one define and measure opportunity costs?

I believe that the Government can be assumed to finance its activities out of tax revenues and that in the long run, the alternative to more Government spending is lower taxes, not less borrowing. The amount the Government plans to borrow each year should be assumed to be determined mainly by how much the Government wants to stimulate or restrain aggregate demand by varying the size of its deficit or surplus, not necessarily by the level and composition of Government investments.

It is sometimes argued that the discount rate should be reduced in those periods in which resources are unemployed and their opportunity cost is, therefore, zero. As a practical matter, discount rate procedures should not be manipulated to reflect highly changeable circumstances such as the extent and nature of unemployment. When the Government desires to stimulate private economic activity, it will want to expand investments earning the highest rates of return, not seek low return projects. If there aren't enough of these high payoff projects, an explicit judgment can always be made to finance projects with relatively low returns as calculated by the usual methods.

In 1958, Prof. Otto Eckstein, who appeared before you yesterday, estimated the reduction in private consumption, private investment, housing, and other types of investment when the Government obtains