

We have this horrible example now, where it goes all the way from zero in a few cases, 3 percent and $3\frac{1}{4}$ percent in an enormous amount of investment, up to 10 percent for you, where we have most of our investment, to 12 and 15 percent in other areas. This is so confusing that it just seems to me you cannot get the kind of discipline necessary so that Congress knows what it is doing.

Mr. LYNN. Yes; I believe there are very great virtues in consistency. To the extent that an agency or a proponent of a particular system argues that special considerations apply, I believe these considerations are best treated by making them explicit by showing alternative costs and benefit estimates rather than by trying to fold these questions into the discount rate. I agree with you on that point.

Chairman PROXMIRE. Let me ask you gentlemen: On Tuesday, the committee heard testimony which distinguished between public investments which displaced private investments and those which did not. For those investments which did displace private investment, it was recommended that the rate of return in the pertinent private sector be used for discounting rather than the social opportunity cost of capital over the whole economy. For those investments that displaced resources in general, the use of the social opportunity cost of capital over the whole economy was recommended.

Does this distinction strike you as being pertinent? Start with Mr. Enthoven, or Mr. Lynn, or both of you answer.

Mr. ENTHOVEN. I think that the correct position for the Government in general, Mr. Chairman, is to use a single rate—our best estimate of the opportunity cost of the capital used by the Government—as the norm. However, using that rate as a point of departure, it might be appropriate to use a different rate in some cases in which there are special circumstances that justify it. But the deviation from the norm should be identified and defended explicitly. Now the example you mention—in which public investment displaces private—might be such a case. I am not sure. The governing criterion should be the maximum social product. Moreover, I do not think the issue of public versus private enterprise should be hidden behind an interest rate argument. I think it should be made explicit and debated on its own merits. Perhaps Dr. Lynn has thought about it.

Mr. LYNN. I think there is a real problem with trying to identify the opportunity cost of a particular kind of Government investment with a return on a similar type of private investment. One of the virtues of the opportunity cost concept is that it forces one to be concerned with what the foregone opportunities actually are, never mind what the characteristics of the specific project under review may be.

Now, in some instances it may very well be the case that if the Government undertakes a project, the private sector will not.

On the other hand, if the Government undertakes the project, the foregone opportunities are more likely to be spread very broadly rather than to be focused on particular industries. I think that adhering to the discipline of the opportunity cost concept and of a sound measurement of opportunity cost is a much better procedure than trying to make pair-wise comparisons between public and private projects of all kinds.

Chairman PROXMIRE. Mr. Mackey?