STATEMENT OF THE PORT OF NEW YORK AUTHORITY

(By Austin J. Tobin, executive director)

I am pleased to have this opportunity, at your invitation to express the views of The Port of New York Authority regarding the current deliberations by the Joint Economic Committee on the possibility of increasing the interest rates used in public investments by the Federal Government. The questions posed in your letter of July 24 would seem to be directed toward the whole spectrum of Federal projects. Since there are considerations here that go well beyond the purview or expertise of the Port Authority, I should like to address my comments particularly to the matter of waterway improvements by the Army Corps of Engineers in which we have a particular and direct interest.

Our concern is not so much with an increase in the interest rates on waterway projects above the present 3⅛ per cent level as it is with the amount to which this rate would be raised and the possibility that a higher rate might be recommended for waterway improvements than for other federal works projects. Certainly, a 10 to 15 per cent level, referred to in the past as a possibility, would, in my opinion, be both unreasonable and completely irrelevant to an economic analysis of national waterway improvements.

There certainly is no correlation between the rate of return earned on high risk enterprises in the private sector and the interest or discount rate which should be used in evaluating the efficacy of public projects dedicated to serve the public interest. Yet, the suggestion that a 10 to 15 per cent interest rate be used is based on just such a theory. An increase of this magnitude could only result in the elimination of urgently-needed improvements and thus be of incalculable harm to the national interest. Indeed, waterway development has and continues to be a matter of vital national transportation policy which can at best be only imperfectly evaluated by the limitations of benefit-cost analysis techniques. Historically, waterway improvements have produced direct and indirect benefits substantially greater than those initially predicted by the Corps. Many such projects would never see the light of day if subjected to an excessively high interest rate, since the present worth of benefits would be reduced and costs correspondingly increased, thereby possibly creating benefit-cost ratios of less than 1.0 for many vital projects.

I do not believe that it is appropriate for us to suggest a specific interest rate to be used in justifying waterway improvements. If the rate level is to be raised, the Port Authority strongly urges that it be to a reasonable level appropriate for public investments. In our view, such a rate should be no higher than the actual average interest cost to the Treasury of its long-term borrowing, with such cost to be determined on the basis of yield rates to investors in long-term Federal securities. But in no event should the rate for waterway projects be higher than the levels used by other agencies of the Federal Government in the economic analyses of similar public enterprises. In this connection, and in response to your question #4, we believe that calculations of interest rates on a continuing basis, and adopted by all Federal agencies for application to projects of the same general nature would be most appropriate and desirable. In other words, a uniform interest rate should apply equally to all comparable public projects, whether they be for flood control, reclamation, harbor channels, waterway improvements, or others.

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