

should increase the level of public investment. It should do so by choosing a low social rate of interest, thereby expanding the number of public investment projects which appear feasible.

The subcommittee believes that this rationale has a number of significant shortcomings. It notes the following reservations to this concept presented in the hearings:

(a) It is not clear that there is a collective willingness to transfer more income from current to future generations than is implied by the current interest rate structure. Considering our investment in durable goods and structures to be provision for the future, we are already transferring nearly 30 percent of each year's gross national product from current consumption to investment in the future. The wisdom of imposing additional sacrifice on the current population (with a per capita income of \$4,250) to increase the wealth of future citizens whose per capita income will be \$10,000 in the year 2000 even without additional transfers is highly questionable.²³

(b) Even if there is a social desire to undertake additional sacrifice now to aid future generations, the provision of subsidized capital to the public sector is not a desirable way of accomplishing this goal. A superior way is to achieve a more rapid rate of economic growth through the adoption of policies to stimulate both public and private capital accumulation. The recent investment tax credit legislation is an example of this latter type of policy instrument.²⁴

(c) Given current knowledge and practice in the estimation of project benefits and costs, a low rate of interest applied to only investments in the public sector would cause many public projects with low returns to be undertaken at the expense of more productive investments in the private sector. The net effect of this would be to lower the rate of national economic growth, therefore undermining the objective of increasing the provision for future generations.²⁵

2. THE COST TO THE TREASURY OF BORROWING

In past discussions within the Government, in the language of the President's 1969 Budget Message, and in the January 1968 Report of the Comptroller General's Office, an interest rate equal to the cost to the Federal Government of borrowing has been suggested. In the Comptroller General's report, this concept was statistically explored and the true cost to the Government of borrowing was estimated, taking into account the tax revenues which the Treasury sacrificed in the borrowing process as well as other adjustments.²⁶

Implicit in this position is the presumption that the Government is an independent organization which should seek the greatest differential between its revenues and outlays as does a private business.²⁷

The subcommittee rejects this view of the Federal Government when it functions as an investor of capital. In this role, the Government

²³ Ibid., pp. 25-26.

²⁴ Ibid., pp. 26, 54, and 143.

²⁵ Ibid., pp. 25-26, 69, and 143.

²⁶ "Interest Rates Guidelines * * *", pp. 60-63.

²⁷ "Economic Analysis of Public Investment Decisions * * *", pp. 26 and 27.