should make those worthwhile investments which private investors cannot undertake, fail to undertake, or undertake in insufficient quantity. As such, the Government is an arm of the society itself and should calculate so as to achieve the greatest difference between social costs and benefits rather than to maximize its own net worth. The purpose of the Federal Government as an investor should be to sustain the private sector and not to exploit private citizens to achieve its own ends.

3. THE OPPORTUNITY COST OF DISPLACED PRIVATE SPENDING

A third concept for establishing a social rate of interest was presented to the subcommittee. It is based on the argument that the Federal Government as investor should have as its objective the maximum well-being of the Nation as a whole as reflected in the national income.[28] It proposes that no public investment be undertaken which earns a return (including third party or spillover effects) which is less than the return on the alternative use of the funds which it absorbs. This approach therefore looks to the private capital markets in determining the value which the funds channeled into the Government would have earned if they were left in the private sector. This approach was summarized for the subcommittee as follows:

> In examining * * * foregone opportunities, and then identifying the opportunity costs, one must ask these questions:
>
> (*a*) Where would the resources have been used in the absence of the particular public investment—in the public sector or in the private sector?
>
> (*b*) If the resources are drawn from the public sector, that is, if the particular public investment is at the expense of other public expenditures within a fixed budget, what return would have been earned?
>
> (*c*) If the resources are drawn from the private sector, are they obtained through taxation or through additional government borrowing? If general fiscal policy considerations require that the additional resources be obtained through taxation, one must postulate a specific set of tax changes in order to identify what private expenditures are foregone, and one must then measure the returns in those alternative uses. If general fiscal policy permits the public investment to be financed by public borrowing, one must trace what private investments are foregone because of this particular government claim in the capital market.
>
> (*d*) Does the public investment preempt a private opportunity at the physical site, or in the same product market, or in utilizing a scarce natural resource? If there is preemption of private investment, an additional test must be performed to assure that the public investment is superior to the preempted private opportunity.[29]

The Subcommittee on Economy in Government finds this to be a sound position and suggests that it be studied further with a view toward its empirical measurement. It believes that private citizens should not, in general, be forced to give up a portion of their incomes in the form of higher taxes to support public undertakings which are of less social value than the uses to which their funds would otherwise

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[28] Ibid., pp. 25, 56, 57–61, 137, and 1424–145.
[29] Ibid., pp. 52–53.