

spending programs would be tempted to stretch the capital budget rules on inclusion, so that the immediate impact of the program in increasing the current deficit, or reducing the current surplus, would be less, and the program itself therefore less visible.

The Commission believes that a further very persuasive argument against a capital budget is that it is likely to distort decisions about the allocation of resources. It would tend to promote the priority of expenditures for "brick and mortar" projects relative to other Federal programs for which future benefits could not be capitalized (including health, education, manpower training, and other investment in human resources)—even when there is no clear evidence that such a shift in relative priorities would in fact be appropriate. The Commission notes that a number of foreign countries which previously used capital budgets have abandoned the practice, and that in other countries, where the semblance of a capital budget is maintained, the division of transactions between those which go "above the line" in the regular budget and those which go "below the line" in the capital budget has become so arbitrary as to make the result virtually meaningless. Even if a capital budget were otherwise desirable, there would be a formidable array of difficult accounting problems and issues, such as the definition of assets (inclusion of military hardware, for example) and the measurement of depreciation on Government property.

The Commission's objections to a capital budget do not, however, constitute an injunction against special tabulations of Federal expenditures of an investment nature, such as is now done in *Special Analysis D* in the budget document. Indeed, the Commission commends the provision of this information.

Likewise, at the individual enterprise and program level, the Commission strongly encourages information necessary for more orderly and economic budgeting, not only to better relate the needs to be met by such outlays to other needs, but also to relate alternative means of meeting these needs as between capital investment and increased expenses. Better cost-benefit calculations *are* needed, and these usually require capital cost estimation. Indeed, an estimation of the rate of return on all projects should be a Government objective. If all capital outlays are expensed, then no depreciation is computed, and no interest cost of capital outlay is imputed, making it difficult to compare real costs over a long period under competing methods of operation. Use of capital budgeting, rate of return, and other decision techniques for Government enterprises promotes efficiency. Therefore, the Commission supports including in the financial statements of Government agencies the net gain or loss from the enterprise computed on a depreciation, imputed-interest basis. This is by no means the same thing as instituting a separate capital budget, separately financed, for the Government in the aggregate.

For the Government as a whole, estimates of the value of Government physical assets and the depreciation of these assets would be useful for study-