City administrators introduced functional and program approaches into the capital and expense budgets; a new program planning division was established in the city budget bureau, along with a policy planning council comprised of the deputy mayor, city administrator, budget director, and chairman of the city planning commission. In specific fields, PPBS techniques were applied to police, health services, housing, higher education, human resources, the board of education, fire department, and to air pollution and sanitation programs. While many of the studies concentrated on long-range planning, the city also set up some short-run systems analyses in such problem fields as refuse management, air pollution, and tax relief for middle-income housing.

Witnesses indicated that PPBS improved executive-legislative relationships. In Wisconsin, for example, where different political parties have controlled the State house and legislature in recent years, PPBS was cited as strengthening leadership in and between both government branches. State legislatures were reported to be increasing their demands for PPBS studies. In addition, State officials noted that PPBS is contributing to better Federal-State relations. Two specific areas in which State administrators felt that PPBS tools have aided Federal-State relations are in general health programs and in State-run grant programs.

PPBS was also commended for increasing communications channels from the States to Washington. At the same time, State officials said that in some instances they found that Federal programing planned on a national scale does not leave enough room for variation and adaptation within States; they said PPBS methods could be used to show where national programs are not the most optimum at lower levels.

THE DISCOUNT RATE ISSUE

During the hearings, the subcommittee investigated the role and function of discount rates in the economic evaluation of prospective public investments within the framework of the planning-programing-budgeting system. Since interest, or discount rates as they are commonly termed, are used to bring projected flows of benefits and costs into a common time frame, they are a crucial element in the cost-benefit analyses utilized by PPBS. The determination of the discount rate to be used has a very great significance for a program's benefit-cost ratio; indeed the difference may be great enough to determine whether a program should be undertaken or not. Thus, a project which appears sound when a low discount rate is chosen, may be economically unwise at a higher rate.

For the sake of clarity, the subcommittee wishes to differentiate between the discount rate discussed here which relates to the economic evaluation of investments, their costs, and future benefits and the "discount rate" as the term is popularly used in the monetary world. The latter is, of course, the rate which is established by the Federal Reserve System governing the cost of member bank borrowings from the System. On the other hand, the discount rate to be used in judging the economic feasibility of Government programs reflects the availability of capital. Admittedly, the availability of capital is affected by money market conditions but it is by no means the same as the discount rate charged by the central bank.

According to the testimony received by the subcommittee, economists generally agree that the appropriate discount rate to use in