quantified. Yet the benefits to society as a whole may be much greater than the individual benefits. Because of these measurement problems many choices among social programs may have to be made for the time being on the basis of cost comparisons. However, there is a clear need to develop better techniques for measuring the diffused benefits of many social programs. If a comprehensive measurement of benefits could be achieved, it is likely that the reallocation of resources into this area should be even greater than present studies indicate.

In addition to affecting the ranking of budget priorities, the use of a discount rate based on opportunity cost could also have an effect upon the total level of Government expenditures. Some programs, such as public works, undoubtedly would be drastically reduced. On the other hand, an adequate measurement of the benefits of human resource investment might result in a growing level of Government expenditures. Whatever the outcome, it would reflect a far more logical distribution of the Nation's economic resources than the haphazard system used today.

Although there is presently no uniform method followed by all Government agencies for computing interest rates used to evaluate public investments, in the area of water resource projects there is a specific procedure used, which is spelled out in Senate Document No. 97, 87th Congress, 2d session. This document provides for the determination of the discount rate on the basis "of the average rate of interest payable by the Treasury on interest-bearing marketable securities of the United States *outstanding* at the end of the fiscal year preceding such computation which, upon *original issue*, had terms to maturity of 15 years or more." (Italics added.)

The subcommittee believes that this procedure has no relevance to economic fact, and should be changed. In the first place, this procedure presumably was intended to relate discount rates to the cost of long-term borrowing by the Federal Government. However, by using coupon rates on outstanding Government bonds it is recording past history and does not reflect the Government's current long-term borrowing rate. Secondly, the 4.25 percent interest limitation imposed on the U.S. Treasury in issuing bonds, resulting in the principal reliance in recent years on short-term issues, has contributed to an understatement of the Government's real long-term borrowing costs. And, finally, even if a rate representing the Government's true long-term borrowing cost was used, this measure would still fall far below the opportunity cost rate in the private sector, because of the effect of the Federal income tax.

It is the subcommittee's conclusion that the optimum allocation of resources requires the use of economically relevant discount rates in the evaluation of public investments. Although the subcommittee believes that further study is required to establish procedures for determining the appropriate rate, the point stressed here is that Government rates should be on a par with private sector rates, and that the current gap between the discount rates in the two sectors leads to resource misallocation. Since the responsibility for developing evaluation procedures for use in studying water resource projects is placed in the Water Resources Council, the subcommittee is requesting the views of the Executive Director of the Water Resources Council on the propriety of the current interest rate and the procedure for computing this rate. In addition, as Senate Document No. 97