

INTEREST RATE GUIDELINES FOR FEDERAL DECISIONMAKING

MONDAY, JANUARY 29, 1968

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON ECONOMY IN GOVERNMENT
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The Subcommittee on Economy in Government met, pursuant to notice, at 10 a.m., in room 1202, New Senate Office Building, Hon. William Proxmire (chairman of the subcommittee), presiding.

Present: Senators Proxmire, Symington, and Jordan.

Also present: John R. Stark, executive director.

Chairman PROXMIRE. The subcommittee will come to order.

This morning the Subcommittee on Economy in Government of the Joint Economic Committee continues its study of Federal expenditures, particularly methods of improving efficiency and reducing waste in the \$175 billion of Federal expenditures.

During this subcommittee's hearings last September on planning-programing-budgeting (PPB) systems, we heard three top economists testify that current Government policies favoring low discounting rates in cost-benefit analysis lead to gross overinvestment in certain sectors, and contributes to inflationary pressures and slower economic growth. To the extent that this is true, it involves waste of our resources.

At my request, agencies recalculated, at various higher discount rates, proposed public works projects; in many cases the higher discounting showed that project costs overwhelmed benefits, indicating that such planned investments were actually a drain from taxpayers' pockets.

An initial survey—the subject of today's hearing—was carried out by the General Accounting Office. The survey attempted to discover the extent and type of discounting practices now utilized by Federal agencies. Virtually every Government agency was covered in the study. The survey shows clearly that there are inconsistencies in current budgetary practices and points out the need for reform in discounting procedures.

We will include the complete survey report in the record at the close of today's proceedings.

(See p. 33.)

Senator PROXMIRE. However, before we hear from our witnesses, an important point should be made. While there is virtual agreement that Government discount rates are too low as compared to discounts used in the private sector, we are not asking that the Government institute one single unique and unchangeable rate to be applied to