

Mr. Staats, before you proceed with your statement I will ask Senator Jordan if he has a statement?

Senator JORDAN. No; I have no statement.

STATEMENT OF HON. ELMER B. STAATS, COMPTROLLER GENERAL OF THE UNITED STATES; ACCOMPANIED BY ELLSWORTH H. MORSE, JR., DIRECTOR, OFFICE OF POLICY AND SPECIAL STUDIES; KEITH E. MARVIN, DEPUTY DIRECTOR FOR SYSTEMS ANALYSIS; DANIEL RATHBUN, FORMER DEPUTY DIRECTOR FOR SYSTEMS ANALYSIS, AND TED M. RABUN, STAFF MEMBER

Mr. STAATS. Thank you very much, Mr. Chairman. We are pleased to appear before your Subcommittee on Economy in Government to discuss the results of our recent survey of the use by Federal departments and agencies of the discounting technique in making evaluations of future programs. Our report on this survey is being submitted today to your committee in accordance with your request of December 19, 1967.

We have noted with interest the work your committee is doing to establish a more effective basis for evaluation of the economics of Government programs. We welcomed the hearings you conducted in September 1967 on the subject of the planning-programing-budgeting system and we have read with great interest your statement on discounting in the report on those hearings. I would like to say, Mr. Chairman, I thought this was an excellent report. While our review of this subject goes back for quite some time, we particularly welcomed the kind of statement included in that report, and we feel that with the committee's report and, hopefully with our report, we will make progress in this area.

The General Accounting Office has also been interested in the subject of planning, programing, and budgeting and specifically the discounting technique. We recently conducted a survey of 23 selected Federal agencies to obtain information on the use made of the discounting technique in making evaluations of their future programs. I share your views that discounting is a matter of increasing importance as the use of PPB causes us to look further into the future at alternative programs. This is so because by the technique of discounting the amounts of estimated future costs and benefits are stated in terms that are comparable to present costs and benefits. The discounting technique does this by the application of a compounded rate reflecting the costs of money.

Federal agency programs generally involve a series of annual costs and a flow of benefits over time. Calculation of the present values of costs and benefits through discounting makes possible a comparison of alternative programs in terms of a ratio of benefits to costs, which gives consideration to the time periods in which benefits will be realized and costs incurred and the time value of money.

The discounting technique can be helpful to the decisionmaker even in those cases in which the benefits associated with programs cannot be measured in dollars. Here, the present values of the costs of the programs can be presented to the decisionmaker for his decision as to whether the perhaps dimly perceived benefits are worth their costs.

Before commenting on the specific aspects of our survey, I would