On the basis of our survey, it is evident that there is little agreement among the agencies as to the rationale that should be used to determine an appropriate discount rate. There has been no central guidance to the agencies on this matter and, except for those programs which concern water and related land resources projects, the agencies have been free to choose whatever discount rate or rationale they considered appropriate. The rationales described to us and the variety of rates used clearly do not evidence a common understanding by Federal agencies of the applicability of the technique to Federal programs.

In those agencies that did not use discounting in their analysis of fiscal year 1969 programs, there is also a lack of agreement. At one extreme is the view taken by the Department of Labor that its manpower development assistance program could be evaluated in terms of a 1-year horizon even though program benefits are expected to continue for 5 to 20 years, depending on occupations for which training is carried on. The implication here is that a very high discount rate is applicable since benefits beyond the first year are ignored.

At the other extreme is the practice of making evaluations on the basis of total undiscounted costs and benefits over the life of a program. This procedure implies a zero discount rate since the dollar costs and benefits estimated for future years are given the same importance as current costs and benefits. The National Aeronautics and Space Administration, the Department of Housing and Urban Development, and the Department of Commerce are among the important agencies that did not use discounting in their evaluations of fiscal year 1969 programs. As noted in our report, 13 of the 23 agencies we surveyed did not use discounting.

The fact that 18 of the agencies included in our survey either use or plan to use discounting is, we believe, an indication that the technique is receiving increasing acceptance in Federal agencies as an important aspect of the decisionmaking process. Several of the agencies advised us that one reason they have not used discounting in the past was that their analyses were not developed sufficiently to permit discounting. Presumably, they will use discounting in the future.

There are several schools of thought followed by the various agencies in determining their particular discount rate. Two of these schools of thought appear to be predominant although there are various interpretations in actual practice.

One school of thought holds that the rate should be determined by and be equal to the rate paid by the Treasury in borrowing money. A second school of thought holds that the rate should be determined by what is foregone; namely, the return that could have been earned in the private sector of the economy when the decision is made to commit resources to the public sector.

Neither school of thought provides clear guidance on the specific discount rate which should be used. Cost to the Treasury, for example, will vary depending upon the definition applied, from 3 to 8 percent or more. The average rate of return in the private sector also varies depending upon historical periods selected and upon the weighting of the various segments of the private sector which are used in computing an average.

A discount rate of slightly over 3 percent is the cost to the Treasury, if based upon the average rate payable on outstanding U.S. securities having maturity of 15 years or more, as prescribed by Senate Docu-