

Chairman PROXMIRE. Thank you very much.

I have had a chance to go over—very quickly, of course, because we just received it this morning—your excellent report to this committee on the survey of the use by Federal agencies of the discounting technique in evaluating future programs; and at the suggestion of John Stark, our staff director, I think it is a good suggestion, we will send this to key Members of Congress, at least those Members of Congress who seem to be interested in this kind of proposal, and I think might take some action on the basis of it. I think it is a most significant and convincing presentation of the importance of achieving some consistency, and of extending as much as we can the use of the benefit/cost system.

Let me ask you, Mr. Staats, without the benefit/cost system analyses, without discounting, without using a discount rate, how can an agency possibly evaluate with any objectivity its investment program?

Mr. STAATS. Well, I think the answer is that there has to be some evaluation of benefits and costs in any judgment that is involved in a budgetary process. The question is whether or not it is a good judgment or a bad judgment. The question of whether or not you are making decisions erroneously in terms of priorities depends heavily upon the use of some analysis of this kind.

As suggested in your committee report, the danger may well be that we are spending money in some areas which will yield far less in terms of return for our tax dollar than we would if we invested in some other areas, and this, of course, is the great danger.

Chairman PROXMIRE. Isn't it true also that, in terms of economic growth, if we take from the private economy funds that will yield a return of 10 percent and invest those funds in a Federal project at $3\frac{1}{8}$ percent it represents a misallocation of resources?

Mr. STAATS. That is correct.

I don't see how you can avoid that conclusion.

Chairman PROXMIRE. And it slows down the growth of the economy?

Mr. STAATS. There has been much good work done, Mr. Chairman, in this area. It is a highly controversial area, as you know, but without some statement of policy in this area, cost effectiveness studies which are an inherent part of the planning-programming-budgeting system will not be effective. You can get not only misallocation in an agency but misallocation in other agencies, particularly when they work in similar fields. The water resources and land area is a good illustration. Research projects which involve several agencies or manpower training are other examples. There has to be some consistency in approach used. If there are variations there ought to be some good rationale or good basis for making a change.

Chairman PROXMIRE. Recognizing the limitations which you properly recognize in your report—since all of us recognize the discounting process is no substitute for intuition, job evaluation, and all that goes into making these decisions—it would seem to me if the Congress and the administration are going to have any effective priority system, discounting would be most helpful to us. I remember late last year when we were so desperately anxious to reduce spending, some of us were in a very, very difficult position because the President—I am sure, with great sincerity—said it was awfully hard for him to