

on over just what the rate should be. At the present time there are no questions raised about the propriety of discounting and 10 percent is used on an across-the-board basis.

Chairman PROXMIRE. I imagine the fact that the Defense Department now uses a 10-percent discount, uses it on an across-the-board basis on the enormous amount of investment they make, made a great difference in their expenditures. If they had not been using that, but using instead a 3 percent or $3\frac{1}{8}$ which has been used by Interior or Corps of Engineers the expenditures would have been a great deal more. You can argue this has saved the taxpayer billions of dollars, without any exaggeration, for years.

Mr. STAATS. In a very recent letter which we received from the Defense Department they first say they agree on the desirability of a greater degree of standardization of Government practice. Then they also say that:

Our discount rates correspond closely to the opportunity cost concept, but in arriving at our rates we did not use exactly the opportunity cost concept as you describe it.

Incidentally, the Department's regulations, are fairly recent, about 2 years old. The Department's letter goes on:

Since our reasoning led to what I believe to be the same end result, I doubt that the differences are worth noting.

My staff would be glad to discuss this matter in more detail with your staff if you wish. I doubt that the cost of Treasury borrowing is the relevant rate for the type of problems with which we are concerned. The data we gave on the projects where discounting was used and the analysis considerably understates the use of these practices. The 73 projects mentioned are those where the discount calculation actually appeared in the budget submission. There must be hundreds of other investments decisions in which discounting techniques are used, but which do not show up in the data because they involve amounts that are not large enough to require individual consideration in the budget or because the discounting techniques showed the project was not sufficiently attractive to warrant submission. Moreover, discounting concepts are used on lease or buy decisions and we did not include these in the list. For example, the recent Air Force decision regarding its Phase II computers with which I think you are familiar, was based on data that included an analysis that calculated the implicit interest cost of leasing for a year.

Chairman PROXMIRE. I think that is a most helpful response, and it suggests we ought to give more consideration to opportunity cost as well as Treasury costs of borrowing although they are coming together. Mr. Rathbun estimated much more than half of investments by the Government is subject to discounting techniques because of the Defense Department, excluding the Defense Department, I take it on the basis of these very big agencies that have big investments programs but don't use discounting techniques that it is very possible that substantially less than half of the nondefense sector of our budget is subject to discount.

Mr. STAATS. That would be my guess. If you exclude the Defense Department it would be substantially less than half.

Chairman PROXMIRE. I think you answered another question I had in mind. I was going to ask you what sort of discounting method the comptroller sees as most feasible. Is there a difference between standardization in form and so on? I think you dealt with that unless you wanted to comment further.

I would like to ask, have you made any estimate of the misallocation costs of the Government, of one agency using explicit rates, one using