

Mr. RATHBUN. I believe it is a mistake to view discounting as something applicable to only an investment project. I think it is applicable to all projects, whether they involve investments or flow of services, because they do involve a flow of costs and benefits over time.

Discounting is fully as useful in, say, the evaluation of some program involving services as in and out-and-out investment program.

Chairman PROXMIRE. Thank you very much.

Do you want to comment?

Mr. STAATS. I think it would be of interest to hear what the Department of Health, Education, and Welfare has to say on the—

Chairman PROXMIRE. Mr. Gardner, I notice, had some different views and Mr. Gorham modified—

Mr. STAATS. The letter indicates that:

"You have expressed concern"—that is the GAO—"that wide disparity among agency practices and rates may produce an inferior pattern of resource allocation. Standard discount rates are important when we are choosing among alternative programs with the same or similar objectives." This is the point we made a while ago.

In these cases, proper estimation of costs and benefits could lead to a useful ranking of projects to maximize the returns from available dollars. But where the benefits of public programs are diverse or intangible, frequently affecting different age groups and regions, a common discount rate, whatever the level, may not be helpful in determining the best allocation of Government resources.

In the present state of the art, no amount of analysis is going to reveal whether the Nation benefits more from sending a slum child to preschool, providing medical care to an old man, or constructing a large water resources project. Currently the decisions of how much health, education, and so forth, and which groups in the population shall benefit, are largely based on value judgments and politics. With respect to the basis of discount rates, we believe they should reflect the opportunity costs of the funds utilized by the project.

It seems equally clear that there is a wide difference of professional opinion—reflected in the results of your survey—as to the appropriate rate.

This concludes the substance of the letter.

Chairman PROXMIRE. I thought it was a very intelligent observation, and I think, of course, he is right. Value judgments have to be the main basis for these things, and I think the example he gives is a good one. Once again, however, I do not understand why this is not a helpful guide under all circumstances.

I understand that the use of the discount technique in evaluating education programs shows education to be a fine investment, excellent investment, and that it is something that you can use quite well.

Mr. STAATS. I think the caution needs to be—

Chairman PROXMIRE. There is, I think, a feeling of hesitance on the part of people because they think it is a little rough and unthinking and unfeeling and mechanical, and that your human resources programs are going to suffer. But I think they could not be more wrong. I think that these are the programs where there is a real payoff and where you are going to get encouragement if they are good programs.

Once again it means you are going to evaluate these programs with a hard head, too, and save money where there is waste, and if you can expose waste and you can keep constantly asking, insisting, that the programs justify itself, and show that there is a payoff.

This is true even in the programs like Head Start that we all feel in our heart, everybody wants to help every little child, but even some of these programs may be wasteful. To the extent that they are, we ought to correct them and improve them.