



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-162719

Dear Mr. Chairman:

In accordance with your request of December 19, 1967, we are submitting our report on the results of our survey of use by Federal agencies of the discounting technique in evaluating future programs. Discounting is a technique which reduces the dollar value of future program costs and benefits by a compounded rate reflecting the cost of money. The discounting of future costs and benefits makes them comparable to present costs and benefits, i.e., comparable in terms of their present value.

In October 1967 we sent a list of questions concerning discounting practices to the heads of 23 Federal agencies. The agencies' replies to these questions are summarized in appendixes of this report. On the basis of the responses of the agencies, the following points are clear:

Although some Federal agencies do not use and do not plan to use discounting, the great majority of agencies view discounting as an increasingly important aid to decisionmaking.

Whether based on Treasury borrowing costs or other considerations, discount rates used in evaluating programs vary over an extremely wide range (3 to 12 percent).

It is possible that the wide disparity in agency practices and discount rates may produce a more serious misallocation of resources than would exist in the absence of discounting. In our opinion, the general acceptance of the technique of discounting by Federal agencies should be supplemented with improvements necessary to bring about consistency in and among agencies in discounting rates, techniques, and underlying concepts.