B-162719

With respect to the discount rate, one school of thought holds that the rate should be determined by and be equal to the rate paid by the Department of the Treasury for borrowed money. Another 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. Our survey revealed that some Federal agencies rely on their own interpretation of these schools of thought while others employ different criteria, including the Federal Reserve Board rediscount rate and agency borrowing cost.

The results of the survey, as shown in appendixes I and II, have been sent to the agencies for their consideration. A substantial amount of further study of specific problems and discussion of the problems with the agencies will be necessary if general guidelines establishing a standardized basis for discounting are to be promulgated.

This report also points out that, if the full costs of borrowing, including foregone taxes from the private sector, are considered, the difference between the various schools of thought is narrowed substantially. It therefore appears that there is a possibility of a satisfactory reconciliation of varying points of view regarding the rate or rates to be used. The report emphasizes that the important matter disclosed by our study is the inconsistency of present practices.

Because of the extreme variation in discount rates and techniques being used by the executive agencies for evaluating and justifying their programs and because there is strong impetus toward the use of the discounting technique by Federal agency adoption of planning-programming-budgeting systems, the Congress may wish to provide guidance to the executive agencies on this important topic.

We have prepared this report for the use of the Congress because of our belief that some measure of standardization regarding the use of