

a misallocation of resources since the results of the analyses would favor program B.

In the above example, the tendency to misallocate will, of course, increase with higher discount rates. The following table illustrates this tendency as the discount rate increases from zero to 10 percent.

<u>Benefit-cost ratio</u>	<u>Pro-gram A</u>	<u>Pro-gram B</u>	<u>Differ-ence</u>
Undiscounted	1.21	1.17	.04
Discounted at 4-1/2 per- cent	1.07	.97	.10
Discounted at 10 percent	.90	.77	.13

Differences in discounting practices (see app. I) in and among the agencies which do use discounting will tend to produce the same kind of misallocation. For example, a power-production program in the Tennessee Valley Authority (TVA) (life of 50 years) may have a benefit-cost ratio of 1.14 (if discounted at 4.5 percent), while in the Department of the Interior the same flow of costs and benefits would yield a ratio of 0.96 (if discounted at 6 percent) or only 0.58 if the project were felt to be risky (and for this reason discounted at 12 percent). Thus, even though both agencies use discounting, the fact that different rates are used tends to favor programs of the agency using the lower discount rate and thus a misallocation of resources could be the result.

Similarly, interagency differences in implicit discount rates in agencies that do not use explicit discounting (see app. II) tend to produce misallocation. As shown in the table on page 4, the implicit discount rate increases as the difference between the most probable (longer) actual life of a program and the period of time considered in evaluating the program increases. The Veterans Administration (VA), for example, evaluates programs on the basis of a 5-year period, while the most probable life of, say, a hospital is about 25 years. Thus, the implicit discount rate is about 20 percent. The Department of Commerce, on the other hand, evaluates some programs having a