

Dear Mr. Secretary:

The General Accounting Office is making a study of the practices followed in the major Federal agencies in measuring the costs and benefits applicable to proposed Federal programs.

The examination of alternative means of achieving an agency's objectives is, of course, of central importance in the allocation of resources. Typically, the alternatives considered will differ with respect to the phasing of both costs and benefits over time. Determination of the relative merits of the alternatives, therefore, necessarily requires that costs and benefits be discounted.

It is clear that the choice of the preferred alternative turns to some extent on the explicit or implicit rate at which costs and benefits are discounted. It is equally clear that in the absence of general guidance on this subject a variety of quite different discounting practices have developed in the Federal agencies.

While different rates in different program areas may be appropriate, the absence of agreement on basic concepts, clearly reflected in the continuing disputes over basic policies, establishes a presumption that existing practices merit review.

It is with this thought in mind that we have prepared the enclosed questionnaire, which I ask you to complete and return by November 15, 1967. Cases involving water and related land resources are excluded, since these are handled under the rules set forth in Senate Document No. 97; similarly, cases involving make-or-buy decisions are excluded, since these are covered by Bureau of the Budget Circular No. A-76.

Any questions you may have should be addressed to Daniel B. Rathbun, Deputy Director for Systems Analysis, in our Office of Policy and Special Studies. (129-5309)