ECONOMIC ANALYSIS OF PUBLIC INVESTMENT DECISIONS: INTEREST RATE POLICY AND DISCOUNTING ANALYSIS

TUESDAY, JULY 30, 1968

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON ECONOMY IN GOVERNMENT
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The Subcommittee on Economy in Government met, pursuant to notice, at 10:05 a.m., in room 1202, New Senate Office Building, Hon. William S. Moorhead (member of the subcommittee) presiding in the temporary absence of Hon. William Proxmire, chairman of the subcommittee.

Present: Representative Moorhead and Senators Proxmire and Jordan.

Also present: John R. Stark, executive director; Robert H. Haveman, economist; and Douglas C. Frechtling, minority economist.

Representative MOORHEAD (presiding). The Subcommittee on Economy in Government of the Joint Economic Committee will come to order. Before we begin I would like, without objection, to make the announcement of these three hearings, and schedule of witnesses, an official part of the record.

(The information follows:)

SATURDAY, JULY 27, 1968.

CONGRESS OF THE UNITED STATES JOINT ECONOMIC COMMITTEE

SUBCOMMITTEE ON ECONOMY IN GOVERNMENT

Senator William Proxmire (D-Wis.), Chairman of the Joint Economic Committee and its Subcommittee on Economy in Government, announced Friday that the Administration will make public its position on the appropriate interest rate for evaluating public projects at the subcommittee's hearings next week.

The Wisconsin Senator said that Secretary of the Interior Udall will discuss the proposed regulation in his testimony before the Subcommittee on July 30th.

Chairman Proxmire said: "The rate of interest used in evaluating projects is of tremendous importance in determining whether or not such projects are economically feasible. Obviously, an unrealistically low rate can give a distorted value to a proposed project.

"The President, in his 1969 Budget Message, noted that the Water Resources Council was then in the process of developing 'a more appropriate interest rate to be applied in formulating and evaluating water projects. The revised rate . . . will be higher than the rate now in use for project evaluation.'

"The Subcommittee is most interested in the recommendation of the Council. We have followed this matter for a long time and are convinced that the interest rate used in discounting benefits and costs must be significantly higher if the Nation is to efficiently allocate its resources.