Representative MOORHEAD. Without objection, the full statement will appear in the record and you may now proceed to summarize.

Mr. HOFFMAN. The gist of my remarks will be to emphasize the complexity of decisions about public investment. My remarks will be under several headings:

First, I would like to consider complexities in the analysis of public expenditures generally.

Second, I would like to consider alternative rationales for the application of discounting and for the development of discount rates.

Third, I would like to consider the applications of discounting to public investment decisions as they are made in the course of the operation of the Executive. Finally, I would like to present some thoughts on recent developments and desirable procedures for discounting.

With respect to the analysis of Government expenditures generally, the primary source of complexity arises from the multiplicity of Government objectives. There are a number of ways of classifying the reasons for Government activity. The classification that I would like to present categorizes these reasons as follows:

First, the provision of public goods; that is, goods whose consumption by one individual does not reduce the amount available for consumption by others. The prime example is, of course, national security;

Second, the redistribution of income;

Third, dealing with spillovers—situations in which one individual's decisions may affect another and there is no mechanism that forces the actor to take these effects into account. A prime example of this, is the emission of pollutants where, as individuals, we do not have to take account of the amount of pollution we emit.

Fourth, the management of publicly owned resources, such as timberlands or mineral resources. Here, the Government has the obligation of managing the resources it owns in a way that is efficient from the point of view of the social welfare.

Fifth, removal of imperfections in the functioning of the private market system or alleviation of their effects. Examples are the use of public enterprise to provide competitive standards or the provision of better information to consumers and producers.

Evaluation of Government activities is made particularly difficult because each one is likely to have objectives that cut across a number of the categories I have mentioned. As one example, let me refer to manpower training programs. They have as one of their effects the transfer of income to the participants in the program through an increase in the investment in the human capital of those individuals. It is also argued that they have provided the public good of an improvement in the quality of the citizenry, particularly in its capacity as an electorate. I believe it is generally felt that productive, responsible, self-reliant individuals make a better electorate, and one of the objectives of our manpower training programs is to increase the number of people in this category.

The programs also have spillover effects. They reduce the need for social services and, perhaps, reduce the crime rate in the areas where the participants live, and increase productivity in the economy as a whole by overcoming the ignorance of some of the participants about the link between training and income.