On the question of how to determine the discount rate to apply to Government investment decisions, my own view is that the broader of the two opportunity cost methods mentioned is the more appropriate. However, there are, at this time, practical difficulties in determining the value to be assigned under that concept and in getting general agreement on such a value. Therefore, as a pragmatic solution, it seems to me that there is merit in adopting a two-part approach, based partly on the distinction that I made earlier between programs in which it is appropriate to consider cost-benefit analysis and those in which we are forced by the inapplicability of market measurement to rely on cost-effectiveness analysis. In programs where cost-benefit analysis is appropriate, and particularly in that set of such programs where the Government goods and services correspond to those of a particular sector of the private market, we ought to use the rate of return that currently applies in that sector of the private market. Care should be taken to define that sector broadly enough so that the effects of local or specific market imperfections, which themselves may be the targets of Government action, are largely averaged out.

In other cases I believe that the approach should be to apply a rate that reflects a riskless opportunity cost averaged over the entire private sector and then to reflect risk explicitly in the calculations of costs and benefits. I believe that by doing this we create greater possibilities for reaching common understanding about the basis for decisions than we do when we try to estimate risk on the basis of what a "similarly risky" activity in the private sector is currently yielding. If, however, for other reasons it apppears desirable to treat risk in terms of a discount rate of set of discount rates, they ought to be identified explicitly as risk premiums added to the riskless rate that would apply generally to Government programs.

Now, the question is, what rate to use.

I have identified differences among economists on the conceptual basis for discounting, but, by and large, I think those differences may not be as large as the differences that appear when we try to identify a specific rate, a number, to use. Given this situation, it seems to me that we can still say that the rate ought not to be any less than the yield on Government bonds with long terms to maturity. I believe that most economists would set the rate higher than this, but I could not at this point pick a number and say that 90 percent of economists would agree on that number.

One way of handling this uncertainty would be to test the results of analyses for sensitivity to rates above the yield on Government bonds to see whether it makes a difference, and then to try to argue the question out in the context of particular programs.

With that, let me turn to recent developments and sum up what I think a desirable procedure would involve. You have heard earlier this morning from Mr. Holum and Mr. Caulfield on the recent developments with respect to water resource programs in which the Water Resources Council has taken the lead. The Bureau of the Budget has worked with the Water Resources Council quite effectively in this, I believe.

In the course of providing PPB guidelines for several other agencies, we have also adopted a procedure which I think offers the possibility of generalization after review and further consideration. We