try to submerge it in a rate of return by an allowance in a discount rate.

Senator JORDAN. Do you believe a rate should reflect an incremental factor for inflation?

Mr. HOFFMAN. If we estimate costs and benefits in constant dollars, then it would be inappropriate to include an allowance for inflation.

Senator JORDAN. Thank you, Mr. Hoffman.

Mr. Caulfield, when you outlined a new formula giving an effective rate of $4\frac{5}{8}$ percent that is a substantial jump from the existing $3\frac{1}{4}$ percent. Explain again to me how you would move from the present $3\frac{1}{4}$ rate to $4\frac{5}{8}$ in the transition period.

Are you going to make the $4\frac{5}{8}$ applicable to all new projects?

Mr. CAULFIELD. All projects presented to the Congress for authorization after the 90th Congress, sir.

Senator JORDAN. Beginning with the next one?

Mr. CAULFIELD. Yes, sir.

Senator JORDAN. Will you make it retroactive to any existing authorizations?

Mr. CAULFIELD. No, sir; that is, the executive branch would not. Of course, many times the appropriations committees decide that they want to reevaluate a project. Of course, it is the option of the appropriations committees to do so. But as far as the executive branch is concerned, this is proposed for application for projects authorized after the 90th Congress.

Senator JORDAN. I see. I think you used an illustration of a project having a benefit-cost ratio of 1.4 to 1, at the rate of $3\frac{1}{4}$ percent. This would be reduced to 1 to 1, the benefit-cost ratio under the new rate of $4\frac{5}{8}$ percent.

Mr. CAULFIELD. Yes; I carefully limited that, though, to an average long-life capital intensive project. It would be a big fixed structure, with not much operation and maintenance cost, and the benefit would be spread over a long period of time.

Senator JORDAN. I am sorry; my time is up.

Thank you, Mr. Chairman.

Chairman PROXMIRE. Gentlemen, I want to thank you very, very much for a fine presentation and a most enlightening response here this morning. I would like to start off with Mr. Hoffman.

Mr. Hoffman, what is the policy of the Bureau of the Budget with regard to applying a discount rate in various departments at the present time?

Mr. HOFFMAN. The Bureau has not issued any explicit instruction on the application of discounting throughout Government. I think we view the problem of the discount rate as a part of the problem of improving analysis in each of the program areas in each of the agencies, and we have been approaching it by working with each of the agencies in the context of the PPB system to improve their general analytical processes, including the use of discounting.

Chairman PROXMIRE. You have been working on this for a long, long time, though, and I am just wondering; we have this tremendous divergence in the various departments, as you know. We have the Interior Department, which on water projects has applied, up to now, the $3\frac{1}{4}$-percent discount factor.

We have in the Tennessee Valley Authority 4.5 percent; the De-