

Chairman PROXMIRE. Or are we comparing apples and oranges?

Mr. HOFFMAN. I am afraid you are in the case of Defense and Water Resources.

Chairman PROXMIRE. Well, those are bad examples. I think there are some instances, though, where you have limited funds and you have to decide that you have to go ahead with a good poverty program, for example, or a somewhat less good public works program.

Mr. HOFFMAN. Yes, I think in some areas—

Chairman PROXMIRE. And your rate of return would help you make that judgment. It is not just a matter of intuition or political preference, it is a matter of being guided to some extent, at least, by what the facts show you on the kind of return you will get.

Mr. HOFFMAN. I agree completely, Senator Proxmire. I think that an analysis should be pushed as far as it can legitimately carry us, and we ought to benefit from analysis as far as we possibly can, and I would try to make as many cross-program comparisons as I legitimately could, using cost-benefit analysis. I would argue, however, that very early we run into difficulties that have to be expressed as footnotes to the calculations, at least, and possibly as more.

Chairman PROXMIRE. I have just one other question for you, then I have a couple of questions for Mr. Caulfield.

Mr. Hoffman, you state the need to measure on a continuing basis accurately the rate implied by the correct conceptual basis. What agency should, in your judgment, undertake the study? Would it be a helpful guide if the base rate could be computed on an ongoing basis for the guidance of our agencies?

Mr. HOFFMAN. If I might, I would like to reflect further on that question before I provide an answer.

Chairman PROXMIRE. Very good.

(The following was subsequently received from Mr. Hoffman:)

As I have indicated in response to an earlier question, efforts to improve the application of discounting to public investment decisions must first achieve a common understanding and agreement on the conceptual basis for discounting, and second, reach agreement on a method or methods for calculating the discount rates to be used. Finally, after completing the first two stages, the assignment of responsibility for preparing current estimates of the rates will have to be considered.

The Bureau of the Budget proposes to continue and intensify its review of alternative conceptual bases and methodologies for determining discount rates. I believe the Joint Economic Committee can also continue to play a useful role in this activity. The Bureau of the Budget will be happy to work with the committee on this. The committee's hearing record has clearly demonstrated that there exists a variety of informed views on the conceptual basis for discounting and the methods of calculating appropriate rates. The Bureau of the Budget in its review of alternatives will seek the views of experts from the Federal Government, private industry, labor, and the academic community.

Our objective, of course, is to improve and better coordinate discounting techniques used for evaluating the benefits and costs of public investment in the Federal Government. The task is made more difficult by the fact that any general guidelines will have to take into account the legislative history and special characteristics of the various Federal programs. Until agreement has been reached on concepts and methods, permitting judgment of the nature and magnitude of the task of providing current estimates of the discount rate or rates, I believe it would be premature to attempt to assign responsibility for this task.

Chairman PROXMIRE. Now, Mr. Caulfield, while you state the new basis for calculating the rate of interest, you do not state the economic