

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

WEDNESDAY, JULY 31, 1968

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

The subcommittee met, pursuant to notice, at 10 a.m., in room S-407, the Capitol, Hon. William Proxmire (chairman of the subcommittee) presiding.

Present: Chairman Proxmire.

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

Chairman PROXMIRE. The subcommittee will come to order. Gentlemen, other members might possibly be here later, but as you know, this is convention time in Miami for the minority and it is also a time when we in the Congress are trying to get as much done as possible before we recess. Consequently, other members of the committee are very much involved in other necessary activities this morning which may conflict and make it difficult for them to attend.

Today is the second in the current series of hearings on the question of consistent interest rate and discounting procedures in the analysis of public expenditures. As we were again made aware yesterday, this problem is an important one in the context of the new planning-programming-budgeting system which has been instituted in all Federal agencies. Indeed, in this time of congressional budget-cutting, it is only with the guidance of competent economic analysis that Congress can rationally choose among alternatives rather than apply the wasteful meat-ax approach to the budget.

In our session yesterday, the statements by Secretary of the Interior Udall, Chairman of the Water Resources Council, and Henry Caulfield, the Executive Director of the Council, explained the new proposed regulation for improved interest rate policy in the water resources area. In addition, Mr. Fred Hoffman, Assistant Director of the Bureau of the Budget, presented us with a thoughtful analysis of the conceptual basis for consistent interest rate policy. In addition, he proposed a procedure for consistent expenditure evaluation among the various agencies.

Today, we will hear the testimony of two prominent academic economists on the interest rate question. They are Dr. Otto Eckstein of Harvard University, a former member of the Joint Economic Committee staff and the Council of Economic Advisers, and Dr. Arnold