IV

Current Discounting Practices in the Federal Agencies Are Neither Consistent nor Adequate

From the testimony of the Comptroller General and agency representatives, the subcommittee learned of current discounting practices in the Federal agencies. As the report of the Comptroller General so clearly demonstrated, discounting practices are neither consistent across agencies nor, in all cases, are they appropriate. In the subcommittee's judgment, substantial room for improvement remains in both the application of the discounting technique and in the appropriate interest rate used for discounting. Accepting as an ideal the situation in which all agencies apply the discounting technique to all expenditures which involve either benefit or cost commitments extending into the future and utilize an appropriate interest rate in performing the discounting, the subcommittee found substantial weaknesses in Federal Government practice. We have concluded the following:

1. The application of economic analysis to public expenditures will be of primary importance in assisting the decisionmaker to choose among alternative expenditures designed to accomplish similar objectives and of substantially less help in determining the optimal size of the Government budget or its allocation among programs with divergent objectives. The practice of accurately and appropriately discounting future benefits and costs is an essential element in the economic analysis of investment alternatives. It is of crucial importance in assisting the decisionmaker both to choose effectively among alternatives that accomplish the same objective and, where feasible, to make cross-program evaluations.[8]

2. While most agencies are aware of the importance of discounting and are applying the technique when appropriate, there are notable exceptions. These exceptions occur where agencies are either constrained by law from doing benefit-cost analysis or report the application of a zero interest rate in evaluating proposed investments.[9]

3. Some of the most effective applications of the discounting technique are found in agencies whose program benefits (and sometimes costs) are among the most difficult to accurately measure. For example, in evaluating alternative defense expenditures with the same objective but with different time profiles of future cost commitments, discounting practice has been consistent and effective.[10] As representatives of the Department of Defense noted, while cost-effectiveness analysis is regularly one of the factors considered in reaching program decisions, it is an aid to judgment and not a substitute therefore.[11] Similarly, in evaluating human

[8] Ibid., pp. 18–19 and 22.
[9] Ibid., pp. 151–153 and 169–172.
[10] Ibid., pp. 136–137 and 146–150 and "Interest Rate Guidelines * * *", pp. 17–18.
[11] "Economic Analysis of Public Investment Decisions * * *", p. 136.