

resource projects, the Office of Economic Opportunity has tested the sensitivity of the computed value of investments by using a number of different interest rates in the analysis.¹² While citing the progress in economic analysis displayed in these areas, the subcommittee is not to be interpreted as passing judgment on program decisions in these departments.

4. Significant inconsistencies exist among agencies and among departments and bureaus in the same agency regarding discount rate policy for use in public investment analysis. For those agencies performing discounting analysis, the range of interest rates applied extends from about 3 percent to more than 15 percent. This range is not explained nor is it defended on economic grounds. Its existence is judged to result from a lack of consistent interest rate policy.¹³ The effect of this discrepancy is to bias the decision process in favor of the sectors using low (or zero) interest rates and against those sectors using higher rates. Moreover, where the rate of interest used is lower than that used in the private sector, funds are being guided from uses bearing a higher return to uses bearing a lower return. The result of both of these effects is to depress the size of the national income and to sacrifice potential economic growth.

5. While substantial progress has been made in instituting analysis in the agencies, some agency personnel resist the application of economic criteria to programs in their departments. The record of the hearings shows, for example, the statement of the Director of the Bureau of Public Roads claiming that the "Bureau of Public Roads does not use discounting techniques in administering the Federal aid and direct Federal highway construction programs. In addition, we do not plan to use discounting techniques in the future."¹⁴ This is in contrast to the position of the representative of the Bureau of the Budget who argued that economic analysis and discounting should be consistently applied to investments undertaken by all agencies of the Federal Government.¹⁵ It likewise contradicts the testimony of the other experts that discounting analysis applied to the highway program would be especially useful.¹⁶

6. The water resource agencies are currently applying an interest rate of 3¼ percent to both future benefits and costs. This rate is among the lowest in the Federal Government and is generally conceded to be too low by observers both in the Government and outside.¹⁷ The application of this interest rate implies a substantial diversion of high return funds owned by private citizens to lower return public investments.

7. The proposal of the Water Resources Council for a new interest rate policy is to be commended. The subcommittee states its full support of the revised procedure. The proposed formula yields a current rate of 4½ percent which is based on the yield of Government long-term securities. This procedure, which includes the

¹² Ibid., pp. 161-163.

¹³ "Interest Rate Guidelines * * *".

¹⁴ Economic Analysis of Public Investment Decisions * * *, p. 169.

¹⁵ Ibid., pp. 21-22, 29, and 34-35.

¹⁶ Ibid., pp. 32-33, and 168.

¹⁷ Ibid., pp. 8-15, 22, 29, 55-56, 57-65, and 141-150 and "The Planning-Programming-Budgeting System * * *", pp. 130-181.