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All Federal Agencies Should Establish Consistent and Appropriate Discounting Procedures Utilizing an Appropriate Base Interest Rate Computed and Published on a Continuing Basis

The subcommittee believes that substantial gains have been made in the application of economic criteria to proposed Federal expenditures. It wishes to commend the Bureau of the Budget and the agencies for the progress made in this area. We wish to emphasize the importance of this kind of analysis in guiding the decisions of the executive agencies and the Congress. While recognizing that decisions cannot be made on the basis of economic considerations alone, we believe that the explicit statement of the economic impacts of expenditures is extremely useful. At the least, this kind of analysis will enable decisionmakers to recognize the economic costs incurred to undertake investments which satisfy other noneconomic, yet worthy, objectives.

Notwithstanding the progress which has been made, the subcommittee is greatly concerned about some notable problem areas in the implementation of economic analysis and appropriate discounting procedures. Among these are:

1. The failure of some agency personnel to stress the importance of effective discounting analysis in their agencies;
2. The sizable range of inconsistency in the evaluation procedures applied by agencies, especially in the discounting process;
3. The inappropriately low-interest rate applied by a number of agencies in evaluating investment alternatives;
4. The existence of significant legal and institutional constraints which inhibit the effective implementation of analysis in the agencies;
5. The current lack of the knowledge and data necessary for sound analysis of the economic benefits and costs of certain public investments, especially in the human resource areas. The concerns of the Public Works and Appropriations Committees of the House and Senate, and the Senate Committee on Interior and Insular Affairs regarding the need for improved benefit-and-cost evaluation procedures is noted by the subcommittee;
6. The potential for the misallocation of funds inherent in most grant-in-aid type support programs which funnel investment funds from the Federal Government where a commitment to the economic analysis of alternatives exists to State and local governments where no such consistent system or commitment exists;
7. The current inability and unwillingness of the Congress to make consistent use of the objective evidence on the benefit-and-cost impacts of its spending decisions and to search consciously for superior means of accomplishing its objectives.