

Based upon the testimony presented to it, and reflecting the above-stated concerns, the Subcommittee on Economy in Government offers the following recommendations:

1. The Bureau of the Budget should undertake to require all agencies to develop and implement consistent and appropriate discounting procedures on all Federal investments entailing future costs or benefits. The subcommittee, however, recognizes that procedures among investment areas may legitimately vary depending on the measurability of benefits and other factors.⁴³

2. The Bureau of the Budget should, in conjunction with other appropriate Government agencies, immediately undertake a study to estimate the weighted-average opportunity cost of private spending which is displaced when the Federal Government finances its expenditures. This study should—

(a) Be guided by an advisory panel of experts to consult with the study personnel on the development of an appropriate methodology and submit an evaluation of the report's conclusions. The panel should be composed of recognized experts in the field of public expenditure analysis without ties to any particular agency or expenditure program;

(b) Make appropriate assumptions about the sources of the funds which finance public investments; calculate the observed before-tax rates of return prevailing in these sectors, and estimate the opportunity cost prevailing over the economy as a whole, giving appropriate weight to both the private consumption and investment which is foregone; and

(c) Culminate in a report proposing the methodology and preferred arrangements for the continuing computation and publication of an interest rate representing the opportunity cost of displaced private spending.⁴⁴

3. Some appropriate Federal Government agency, perhaps the Office of Business Economics, should estimate and publish on a continuing basis the weighted-average opportunity cost interest rate defined in point 2 above for guidance to all Federal agencies in undertaking the analysis of public investments. This published rate should be adopted by the Bureau of the Budget and specified by the Bureau as a guideline for agencies on budget and program submissions.⁴⁵

4. The Water Resources Council should adopt its proposed interest rate procedure as stated in the announcement of July 22, 1968. The subcommittee believes that this proposal is a significant improvement over the current practice and that it is not inconsistent with—though the lowest reasonable estimate of—the current minimum-risk opportunity cost of displaced private spending. Given that this interest rate is a minimum-risk rate under current capital market conditions, it should be noted that explicit allowances for elements of risk and uncertainty should be made when

⁴³ "Interest Rate Guidelines * * *," *passim*, "Economic Analysis of Public Investment Decisions * * *," pp. 22, 28–29, 34–35, and 137.

⁴⁴ "Economic Analysis of Public Investment Decisions * * *," pp. 41, 45, 56, 57–65, 143–144, and 179–181.

⁴⁵ *Ibid.*, pp. 45, 78, and 179–186.