

Description, Prescription and the Choice of Discount Rates  
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### **Background: Discounting Approaches**

Discounting is generally defined as the process of comparing the values of costs and benefits that occur at different times. Approaches to choosing discount rates are generally placed into two categories. The *descriptive approach* matches discount rates to descriptions of how society discounts taken from monetary interest rates observed in financial markets. The *prescriptive approach* derives discount rates from fundamental ethical views, even if the resulting rates do not match market rates.

### **Arguments Over The Approaches**

Many analysts favor the descriptive approach over the prescriptive approach on populist, democratic grounds. They argue that analysts should use society's discounting views instead of imposing their views on society. This paper finds this argument to be mistaken because, *in the process of deciding how to define society and describe its views, analysts cannot avoid imposing their views on "society"*. Furthermore, the discounting approaches as they are commonly implemented are equally descriptive and prescriptive. Thus, *the labels "descriptive approach" and "prescriptive approach" are deeply misleading*. This is seen through analysis of standing, measurement, and aggregation.

### **Standing**

To have standing here to have one's views on discounting described. Prescriptions (value judgments) are required to decide whose views to describe. In the common descriptive approach, only current humans have standing. The common prescriptive approach has two interpretations: *elitist* and *populist*. In the elitist interpretation, only those elites deciding how to conduct the analysis have standing. In the populist interpretation, current and future humans have standing. All of these approaches/interpretations deny standing to non-humans.

### **Measurement**

Given a selection of who has standing, the next step is to select how to measure their views. Again, prescriptions are required to decide how to perform the measurement. In the common descriptive approach, measurement is made through observation of specific market behavior. In the prescriptive approach elitist interpretation, the measurement is of what elites claim to favor. In the prescriptive approach populist interpretation, measurement is made through choices on the relationship between preference (view) strength and monetary consumption.

### **Aggregation**

The final step is to aggregate individual measurements into a societal measurement. Again, prescriptions are required to decide how to perform the aggregation. In the common descriptive approach, aggregation is made through a "one dollar, one vote" scheme. In the prescriptive approach elitist interpretation, the aggregation is made through the elites' decision making process. In the prescriptive approach populist interpretation, measurement is made through a "one unit of preference strength, one vote" scheme.