

CURRENT VERSUS CAPITAL EXPENDITURES

It is mainly current expenditure, or mainly capital outlay that is driving up the general expenditure of State and local governments? And if one type of expenditure had advanced more rapidly than the other, what services are responsible for it?

Here is some of the evidence. While total general expenditure of State and local governments increased about 44-fold during 1902-58, the current elements advanced about 37-fold and the capital elements 76-fold. (See tables 4 and 5.)

Capital outlays of the three important services—education, highways, and health and hospitals—which throughout this period accounted for between one-half and two-thirds of general expenditure, advanced at a much more rapid pace than did current expenditures. The 1902-58 increases for education were 84-fold versus 56-fold, for highways 99-fold versus 23-fold, and for health and hospitals 207-fold versus 54-fold.

Sanitation and local parks and recreation behaved in an opposite manner. For natural resources only data since 1932 are available. Housing and community redevelopment is a relatively new function and not enough evidence is on hand to reach a conclusion. But capital outlays of all other services increased about two and a half times as fast as did their current expenditure.

In summary, much of the rapid increase in the general expenditure of State and local government since the turn of the century can, no doubt, be traced to the capital outlay elements of education, highways, and health and hospitals.

COST COMPARISONS IN CONSTANT DOLLARS

An analysis of State and local government general expenditure has revealed major increases. But the entire analysis was in terms of current dollars, in many respects an imperfect yardstick, since the value of the dollar changed substantially during this period. In recognition of this fact the question will now be asked, "How great, if any, were the cost changes of a given bundle of State and local government services during this period?" To answer this question, a deflation procedure must be used so that a cost comparison in real terms becomes possible.

Basically, there are two approaches to the problem of deflating State and local government purchases. As George Cobren has so aptly put it—

In the case of Government purchases, a basic dichotomy exists among national income theorists as to the proper approach to the deflation problem. On the one side it is argued that the deflation procedure should focus on the products which the Government buys; on the other, that the procedure should measure the volume of services which the Government provides.⁴

He goes on to point out that the U.S. Department of Commerce's implicit deflators for the Government sector of gross national product follows the first of these alternatives. With the help of the implicit deflator applicable to the State and local government sector, the value of the goods and services purchased by these governments can be deflated. Apparently this alternative was selected by the Department

⁴ George M. Cobren, "The Deflation of the Gross National Product by the Department of Commerce," American Statistical Association proceedings, business and statistics section, 1958, pp. 312-319.