

of Commerce, since while it presents formidable difficulties, the other is even more hazardous.

One of the main shortcomings of the deflating procedure followed by the U.S. Department of Commerce stems from the fact that by far the largest expenditure item—employee compensation—is derived “* * * by extrapolating the base-year estimate by man-hours wherever possible, and by employment when man-hours were not available. * * *”⁵ This, admittedly, is equivalent to deflating the current value figures by indexes of average compensation. The result is a measure which makes no allowance for quality changes—in this case, for changes in the productivity of Government employees.

On this point, Richard Ruggles and Nancy D. Ruggles made some revealing observations in their testimony before the Joint Economic Committee.⁶ They are greatly concerned about the fact that the implicit price deflators do not properly allow for quality and efficiency improvements. Consequently, they argue that almost every category of expenditure has an upward bias.

In table 6 purchases by State and local governments, both in actual and constant dollars (1954=100), are presented for the period 1929–58. Money expenditures increased from \$7.2 billion to \$40.5 billion, i.e., slightly more than five times. In constant dollars the increase was much less, i.e., the 1958 figure is only a little more than double that of 1929. Expenditures in constant dollars zigzagged from 1929 to 1945. But with the end of World War II they began a pronounced rise which as yet shows no sign of reversal. The average annual cost increase in constant 1954 dollars during the last 10 years was about 8 percent.

TABLE 6.—*State and local government purchases of goods and services in current and constant dollars (1954=100), 1929–57*

[In billions of dollars]					
Year	Current dollars (1)	Constant dollars (1954=100) (2)	Year	Current dollars (1)	Constant dollars (1954=100) (2)
1929	7.1	15.6	1944	7.5	13.8
1930	7.8	17.1	1945	8.1	14.0
1931	7.7	17.9	1946	9.9	15.8
1932	6.6	16.6	1947	12.7	17.8
1933	6.0	14.6	1948	15.2	19.2
1934	6.8	15.8	1949	17.9	21.9
1935	7.1	16.3	1950	19.7	23.5
1936	7.0	16.6	1951	21.7	24.1
1937	7.2	16.4	1952	23.2	24.5
1938	7.5	17.4	1953	24.9	25.5
1939	8.2	19.1	1954	27.7	27.7
1940	7.9	18.0	1955	30.3	29.7
1941	7.8	16.9	1956	33.2	30.6
1942	7.7	15.4	1957	36.8	32.3
1943	7.4	14.0	1958	40.5	34.4

Source: U.S. Department of Commerce, “U.S. Income and Output,” 1958, pp. 118–119.

⁵ *Ibid.*, p. 316.

⁶ Richard Ruggles and Nancy D. Ruggles, “Prices, Costs, Demand, and Output in the United States, 1947–57,” the relationship of prices to economic stability and growth, compendium of papers submitted by panelists appearing before the Joint Economic Committee (Mar. 31, 1958), p. 299.