Chapter 1

State and Local Government Capital Expenditures in Relation to National Economic Activity With Projections for 1975*

Introduction

In this chapter it is proposed to examine the relation of capital goods purchases by State and local governments to the course of national economic activity and other relevant factors. Projections for 1975 of State and local government purchases of structures and equipment are also prepared, making use of alternative assumptions with respect to future rates of national economic growth, rates of unemployment, prices, and other factors provided by the staff of the Joint Economic Committee. No attempt is made to analyze or quantify existing or future Federal programs designed to provide aid to State and local governments in order to meet the needs of their changing economies and of the growing population. Rather, reliance is placed on extrapolating the fairly stable relations which have persisted in the postwar period among the national economic and other variables and those of State and local governments. Therefore, a basic assumption is that these relationships will continue to hold in the future to substantially the same extent as they have in the past. Should any marked departures develop from the historical patterns of these relations, a reexamination of the projections herein set forth would be required.

Outlays of State and local governments for structures and equipment;[1] that is, their capital expenditures, have risen sharply over the postwar period in both current and constant dollars. In 1947 such purchases amounted to $2.7 billion, and in 1965 they were about $20 billion—nearly 7½ times as much. (See chart 1.) This expansion compares with a tripling in nonresidential structures and equipment expenditures by private business. Also, in contrast to the private sector where outlays for nonresidential structures in 1965 comprised about one-third of total expenditures for nonresidential structures and equipment, State and local government spending for structures constituted nearly 90 percent of their total capital outlays.[2] This emphasis of State and local governments on structures reflects their efforts to meet the pressing needs of the population for nonresidential buildings, such as schools and hospitals, for highways, sewer and water systems, and for other public facilities.

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[1] These include State and local new construction plus purchases of existing structures less construction force account compensation, and net purchases of equipment (purchases less sales). The definitions and measurement conform with those used in the national income and product accounts.

[2] State and local government structures include residential buildings which, in 1965, amounted to $500,000,000. Nonresidential structures in 1965 would also comprise 90 percent of capital outlays excluding residential building.