Another important dissimilarity between the two series is their movement in recession periods. In contrast to the downturn in real GNP in each of the four postwar recessions—the decline in 1961 is not evident in the annual data—State and local government public works continued to rise by as much as, or more than, in the immediately preceding years. It appears that in recessionary periods, total revenues of State and local governments move contracyclically, and their public works outlays also expand. Continuous vigorous State and local government capital programs, financed by increasing tax revenues and borrowing and by rising Federal grants-in-aid, have thus helped in cushioning recessions and have contributed to the growth of the economy. In contrast, investment in structures and equipment by private business has fluctuated widely and has been an important factor in shaping the patterns of the postwar business cycles.

It may be noted that business expenditures for plant and equipment is a lagging indicator, turning down at about the time or shortly after general business activity begins to decline and rising about 6 months after the turnaround in general business. State and local government expenditures for plant and equipment, on the other hand, cannot be considered an indicator in relation to the general economy since it has tended to show a continual growth throughout the postwar period.

The lower panel of chart 2 shows the ratio of real State and local government expenditures for structures and equipment to real GNP. The ratio rose sharply, from 1¼ percent of real GNP in 1947 to nearly 3 percent in 1958. Since then the proportion has fluctuated within a relatively narrow range—between 2.8 and a little over 2.9 percent.

Nonresidential buildings, which include the important categories of public schools and hospitals, and highway construction account for roughly two-thirds of total capital outlays. Most of the major categories of public works grew rapidly in the early fifties, but since then the advances have been more moderate; even so, the expansions have continued at relatively high rates—certainly larger than the rate of growth of the economy as a whole.

The following table shows State and local government expenditures for the major categories of structures and equipment for selected years:

	Structures and equipment [1]	New construction [2] (billions of current dollars)					Purchases of existing structures	Net purchases of equipment
		Total	Nonresidential buildings	Highways	Sewer and water	All other construction [3]		
1950	5.65	5.24	1.89	2.09	0.66	0.61	0.14	0.39
1955	9.82	8.95	3.39	3.78	1.08	.68	.33	.76
1960	13.61	12.24	4.06	5.30	1.49	1.39	.41	1.26
1965	19.91	17.83	5.74	7.23	2.42	2.44	.68	1.78

[1] Includes new construction and purchases of existing structures less construction force account compensation, and net purchases of equipment.
[2] Includes construction force account compensation.
[3] Includes residential buildings, public service enterprises, conservation and development, and other construction not elsewhere shown.

Source: U.S. Department of Commerce.