Much of the impetus to the State and local government construction programs has come from the channeling of Federal funds through grants-in-aid to these governments. These grants have increased steadily throughout the postwar period—from $1¾ billion in 1947 to about $11½ billion in 1965. Considered by function, Federal grants-in-aid allocated to highways are by far the largest, with public assistance and relief, second. In 1964 these two functions absorbed two-thirds of the total grants-in-aid. However, allocations to other functions may be expected to expand rapidly in the coming years as programs such as Federal assistance for health, and the modernization of existing hospitals and construction of new ones get fully underway. Also, the large needs for new educational facilities plus expanding community redevelopment programs and housing development and improvement in urban areas will result in rising Federal assistance for these purposes.

EXPENDITURES OF STATE AND LOCAL GOVERNMENTS

With the rising tempo of economic activity, State and local government receipts have correspondingly expanded and have thus permitted constantly rising expenditures for capital goods and for other purposes. Chart 3 shows that, on a national income basis, expenditures and receipts in the postwar period have been fairly close together with the resulting surpluses and deficits relatively small. The largest deficit—$2.3 billion—occurred in 1958, and the largest surplus—$1.7 billion—in 1965. In the past 9 years, the aggregate deficit has been just about equal to the aggregate surplus on the national income account basis. However, the deficit or surplus in these accounts does not indicate the change in the outstanding debt of these governments, mainly because their receipts and expenditures do not include changes in financial assets and land transactions. Also, because the accounts are on a consolidated basis, they include the operations of the pension trust funds, which have been running a surplus in recent years. Moreover, these governments need a larger volume of funds in liquid form to support their expanding obligations.

Throughout the postwar period State and local authorities have been borrowing sizable sums with the result that there has been a steady increase in the net debt. In the past 3 years this increase has averaged over $6 billion a year, bringing the outstanding debt as of mid-1965 to $92.8 billion. This represents a ratio to their total 1965 expenditures of 1.28. While this ratio has been maintained over the past 3 years, it is higher than in 1955, when it was 1.17, and much higher than in 1950, when it was only 0.93.

If we assume that pension trust fund transactions, net borrowing, and holdings of liquid assets will continue to bear about the same relationship to economic growth as in recent past years, then we may use for purposes of longer-term projection total State and local government receipts as a "proxy" measure of their expenditures.