2. Projection of Personal Income

As already indicated, personal income is another major determinant of receipts of State and local governments. Since 1953 the ratio of personal income to GNP has varied from a low of 78.1 percent in 1955 to a high of 80.8 percent in 1958. The ratio rises sharply in a recession period and declines abruptly in the first year of recovery; thereafter, the changes tend to be relatively small. Fluctuations in this ratio are to a large extent a reflection of changes in corporate retained earnings (these are excluded from personal income but are included in GNP), which fall sharply during a recession and thereafter rebound, particularly in the early phase of the recovery. In 1965 the ratio of personal income to GNP was 78.5 percent—a moderate decline from the 79 percent in the first year following the 1961 recession.

The 1975 projection of personal income is derived by utilizing a regression relating personal income to GNP in current dollars for the period 1953–65, excluding the recession years 1954, 1958, and 1961. The regression equation expressed in billions of current dollars is:

(1) Personal income$=3.752+.7827$ GNP $\frac{2}{r}=.999.$

Using the projected 1975 GNP of $1,275 billion, this relation yields a corresponding personal income of $1,000 billion in 1975 under assumption A. The ratio of personal income to GNP in 1975 is 78.4 percent, only fractionally lower than the 1965 ratio. On the alternative GNP projection of $1,180 billion in 1975 (assumption B), personal income, as set forth by the staff of the Joint Economic Committee, is $895 billion. This implies a significantly lower ratio to GNP than for assumption A.

3. Projection of State and Local Government Receipts

Having projected the GNP and personal income, we are now in a position to estimate State and local government receipts. The major sources of these receipts and their amounts in 1965 are given below.

[Billions of dollars]

Personal tax and nontax receipts	11.5
Property taxes	23.0
All other taxes [1]	28.4
Federal grants-in-aid	11.4
Total receipts	74.3

[1] Includes corporate profits taxes, contributions to social insurance, and all indirect business taxes other than property taxes.

a. *Personal tax and nontax receipts.* Over the postwar period an increasing number of States have inaugurated taxing of personal incomes or have increased their existing rates as a means of obtaining additional revenues. As a result, the ratio of State and local government personal taxes to national personal income has risen steadily over the past decade, from 1.3 percent in 1955 to 2.2 percent in 1965, with the rise in the ratio slowing somewhat since 1960. The share of personal income taken by State and local governments is likely to continue to increase in the years ahead.