$173 billion and $152 billion, respectively. In 1965 total expenditures were $72½ billion, so that these projections represent an average annual rate of increase over the next 10 years of 9.1 percent and 7.7 percent, respectively; these rates compare with 8.1 percent per year from 1955 to 1965.

4. Projection of Structures and Equipment Expenditures

To project State and local government capital outlays realistically would involve an examination of the various types of construction programs and other needs for the period ahead, an appraisal of regional and local requirements, and of the ability of State and local authorities to finance the projects. Also, the scope and nature of Federal Government aids to State and local governments would need to be considered. But even projections based on such thorough considerations would still involve making conjectures and judgments at many points. No long-term programs or plans are available for the major categories of capital outlays by State and local governments. In addition to many other unknowns, there is the question as to how fully existing programs and legislation of the Federal Government affecting State and local government public works will be implemented over the coming years and what new programs and legislation might be forthcoming.[6]

In view of the aforementioned uncertainties, the only other approach to projecting over the longer term is by developing meaningful relations which portray the historical experience, particularly if they have proved to be stable under varying political and economic conditions. Future events can alter the past pattern, but this is the risk involved in any attempt to look ahead, whether short run or long run. This approach, which has been used in making the foregoing projections, is also utilized to project capital outlays.

As already indicated, State and local government expenditures for structures and equipment comprise a fairly large part of their total expenditures. Since the latter are largely dependent upon the receipts of these bodies, the volume of capital outlays, together with the borrowing required to finance them, tend to move with receipts or expenditures. Chart 5 shows that real capital outlays moved up rather sharply relative to real total expenditures[7] up to 1954. Since then the relative movement has been more moderate. A linear regression for the period 1954–65, in billions of 1958 dollars, is:

(5) Capital outlays$=.414+.287$ (total expenditures) $\frac{2}{r}=.994$.

The relationship is very close over this period and implies that the change in real capital outlays has on the average reflected nearly 30 percent of the change in real total expenditures.

To project real capital outlays it is necessary to estimate real State and local government expenditures; this requires a projection of their implicit price. These prices have moved in a close relation

[6] A detailed analysis for the year 1970 using the foregoing considerations is available in an unpublished manuscript, "State and Local Finances, Project 1970," prepared for the Federal Interagency Committee on Economic Growth by the Council of State Governments.

[7] Since purchases of goods and services comprise the bulk of total State and local expenditures, the latter were converted to real terms by the use of the implicit prices for goods and services—see table 1 in the appendix.