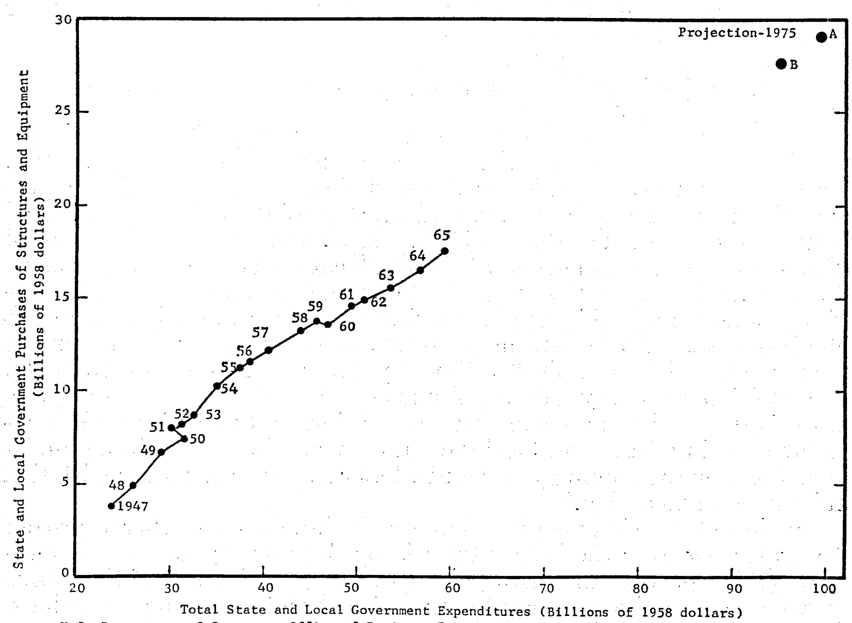
CHART 5.—STATE AND LOCAL GOVERNMENT CAPITAL OUTLAYS RELATED TO TOTAL EXPENDITURES

[In constant prices]



U.S. Department of Commerce, Office of Business Economics

with the total GNP implicit prices over the past 15 years—a 1-percent increase in the latter prices have been accompanied on the average by a 1.7-percent increase in those for State and local government expenditures. This larger relative advance is attributable to the way prices of services (measured by wages and salaries) are treated in the government sector of the GNP; i.e., no productivity gain is imputed in measuring real government GNP. In the government sector real GNP moves proportionately to the man-hours, whereas in the private economy real GNP reflects the productivity times man-hours. Thus, the implicit price movements in the private sector reflect the effects of productivity changes whereas in the government sector they do not.

The relationship of State and local government expenditures implicit prices with those for GNP for the period 1950–65, with each price index on a 1958 base, is as follows:

(6) log (State and local government expenditures implicit price)=

$$-1.419+1.714 \log (\text{GNP implicit price}) \ \overset{2}{r}=.985.$$

Equation (6) produces an implicit price index for 1975 of State and local government expenditures of 174 (1958=100) for assumption A (which involves an average rate of increase in the GNP implicit price of 2 percent per year), and an index of 160 (1958=100) for assumption B (which involves a rate of increase in the GNP implicit price of 1.5 percent per year). Using these deflators gives a 1975 projection of real State and local government expenditures of $99.5 billion under