

exceeding general expenditures by about \$5 billion in 1975. The spending will be that called for under present law plus quality (and scope) expansion at recent rates. Looking at the still broader financial operations, chiefly extending the scope to include borrowing and debt requirement, we see a slightly larger excess of availability over requirements.

TABLE 1.—SOURCE AND USE OF MAJOR STATE AND LOCAL GOVERNMENT FUNDS,¹ ACTUAL AND PROJECTED
FISCAL YEARS 1965 AND 1975

[In billions]

	Actual, 1965	Projected, 1975
Source of funds:		
General revenue.....	\$74.3	\$146.9
Profit on liquor stores.....	.3	.3
New long-term borrowing.....	11.2	16.1
Other borrowing ²	1.1	1.0
Total funds available.....	86.9	164.2
Use of funds:		
General expenditures.....	75.0	142.0
Long-term debt retirement.....	5.0	8.8
Employee retirement systems.....	1.8	3.0
Deficit on utility operations.....	1.0	.5
Additions to liquid assets.....	4.8	3.6
Total funds required.....	87.5	157.8
Funds available less funds required.....	-.6	+6.5

¹ Excludes transactions of social insurance systems, chiefly unemployment insurance. Utility and liquor store operations are entered on a net basis.

² Net increase in total debt outstanding minus difference between long-term debt issued and retired.

Source: Actual data from U.S. Department of Commerce, Bureau of the Census. Computations and projections by Tax Foundation.

If state-local governments continue to borrow about one-half the amounts they spend for capital investment, as they have in recent years, total debt for all would rise from \$100 billion in 1965 to \$169 billion by 1975, an average of about \$7 billion a year.¹ This change would represent a slackening in the relative growth rate in debt, as well as a decline in the outstanding volume of net long-term debt in relation to revenues from state and local sources.

Under the conditions assumed, without an increase in over-all tax rates, aggregate general revenues will grow somewhat more rapidly than spending.

These findings stand in sharp contrast to widely expressed notions concerning the future of state-local finance. In recent years, it has become almost commonplace to assume that states and localities as a group are in financial straits which will be accentuated, that these governments will become increasingly hard pressed and unable to meet adequately their appropriate responsibilities. Overlooking for the moment the "rubbery" aspect of at least two terms in the last sentence, I hasten to recognize that some jurisdictions (and my close contact with New York City's situation enables me to identify one case) will not be "normal" or average. Yet for most state and local units, the financial outlook is much better than is generally realized.

EXPENDITURES

Expenditures (including quality improvement) are projected to rise from \$75 (1965) to \$142 (1975) billion. Table 2. This pattern represents continued high growth, but at a relative pace more nearly consistent with that of the first half of the 1960's than with the faster rate recorded in earlier postwar years. For the decade to 1975, the indicated rise is 89 percent—no small amount—in comparison with a 123 percent advance in the decade ending in 1965. (1) Some factors mak-

¹ Long-term debt net after allowing for cash and securities held as debt offsets would grow from \$80 to \$145 billion. The levels of debt projected here may, however, be overstated. The projected surplus of available funds over those required suggests that, if receipts and outlays on current accounts materialize as indicated, state and local units may not resort to borrowing for capital purposes to the same extent as in recent years. The indicated levels of debt do not appear to exhaust the potential recourse to new debt financing if needed.