

of the property tax, in sharp contrast to the decline in its relative role over several years to the end of World War II.

Revenues are projected as rising somewhat more rapidly than general spending. This result would come without any increase in overall effective tax rates, the addition of new taxes, or the broadening of bases of present levies.² Conservative estimates of the automatic response of taxes to rising incomes point to a 75 percent rise in yields from existing (1966) taxes in the decade ahead.

Funds from Federal grant-in-aid programs existing in 1966 are estimated to rise (from about \$17 billion in 1968) to \$30 billion by 1975. The increase is large but at a relatively lower rate than has characterized the past decade. The rates charged to users of specific state and local services are assumed to continue to grow proportionately with expenditures for the associated functions.

State-local taxes per capita would rise by 50 percent to \$414, an average of \$2070 a year for a family of five.

ASSUMPTIONS AND METHODS

Dr. Watters' complete study spells out the detailed assumption underlying the projections. Although I cannot claim to have reviewed the dozens of decisions she had to make in choosing among reasonably acceptable possible assumptions, I am inclined to agree with her that the composite is conservative, that is, taking care to avoid the overstatement of revenues or the understatement of spending.³

The assumptions, in general, envisage rates of economic growth and of general prices similar to the experience of the first half of the 1960's. The projections are consistent with a rise of about 4 percent annually in real gross national product and an annual increase of 1.6 percent in general prices. Under the assumptions, current dollar gross national product would amount to \$1.2 trillion by 1975, and per capita personal incomes would rise to \$4,240, about one-fifth higher than in 1965.

The population projections assume that the birth rate will continue downward until 1967 and thereafter will gradually rise throughout the projection period. The estimates are based on the revised Series C of the Bureau of the Census. Total population would rise by about 23.7 million, to 218.3 million in 1975.

Expenditures are projected for the several functions by building up estimates of caseloads, unit costs, and prices, under legislative programs already in effect—or in a few instances where it is noted, on anticipatory legislative policy changes. *It is a basic assumption that standards per service unit will advance at the real rate of improvement experienced during the period 1960–1965.* Tax revenues are projected on the basis of the 1966 tax structure; and the increases shown reflect gains accruing solely from expected future economic growth. Nontax revenues and revenues from Federal grants are based on projected expenditure levels for the several functions.

IMPLICATIONS

The projections—as made clear in the study and as Dr. Watters has emphasized in talks before numerous groups—are in no sense predictions of what will actually happen. They do not claim to deal with future “needs” as defined on the basis of value judgments. Rather, the figures are a statement of the levels of state and local government activity which would prevail in 1970 and 1975 if the assumptions prove accurate. As is the case in any aggregative study involving national totals, the conclusions do not apply with equal validity to all states or to all of the country's more than 80 thousand local taxing and spending jurisdictions.

Existing revenue systems, without tax increases, will be able to finance the expected expenditure growth associated with built-in factors of population, caseloads, and prices, and *in addition provide for improvements in (a) the quality and (b) the scope of services averaging 2 percent per year.* The cumulative improvement ought to be substantial. Yet I hasten to note that dollar outlays do not necessarily measure quality. Results may be either better or not so good as money amounts suggest. Will performance improvement correspond with the increase in average salary of \$2,855? One of the more baffling problems of government finance lies in the measuring output. The potential for bettering the quality of state-local services is substantial—things now being done or new activities.

In closing, and without discussion, I venture a few observations.

² Some such revenue-increasing structural changes have been made during 1967 legislative sessions.

³ I note one exception below; it may be important.