STATEMENT OF LAWRENCE R. KEGAN, DIRECTOR OF SPECIAL STUDIES, COMMITTEE FOR ECONOMIC DEVELOPMENT

Mr. KEGAN. Madam Chairman, I welcome this opportunity to appear before your Subcommittee on Fiscal Policy to discuss fiscal projections for State and local governments and their policy implications. Doubtless your invitation stems from the publication in June 1967 of a statement on national policy by the Committee for Economic Development on "A Fiscal Program for a Balanced Federalism." Copies have been made available to you. Although my testimony today is based on the staff research which served as a background for this statement, the projections and policy implications summarized here do not necessarily represent the views of other staff members, officers, or trustees of the CED.

Since they are available, and since Mr. Stein will appear before your panel tomorrow to focus on the major policy recommendations concerning the tax credit against the general assistance grants, I thought that it might be helpful for me to focus on the projections which are background for the statement. But since the whole subject is "Revenue Sharing and Its Alternatives, What Future for Fiscal Federalism?" I would like to consider some of the policy implications which will not be covered by Mr. Stein. For that reason, in order to be more responsive to your interests and those of your committee, I have partly changed my statement. And I hope you will permit me to go ahead with it.

First, I should like to deal with the model we have developed for our projections. It is different from, I think, most all other models in trying to highlight separately the changes in the three major factors of State and local expenditures in order to highlight the policy issues that affect each one of them. The three factors are the population-workload, changes in prices, and changes in scope and quality of public services.

Now, by population-workload we mean not simply the changes in the population, but accounting for the changes in the population structure, or the population by age groups. The population will decline, as projected by the Bureau of the Census, from 18 percent in the last decade—and by that I mean 1955–65—to the forward period, 1965–75, to 15 percent. But the growth rates in the age groups requiring the most costly public services are expected to decline considerably.

For example—and this details some of the points that were made by Mr. Harriss—the increase in the age group determining enrollments in the public schools, ages 15 to 17, will fall from 35 percent in 1955–65 to about 7 percent in 1965–75. And this is known now. There is nothing involved here about birth rates in any serious sense for this forward period.

The growth of the college-age group, 18 to 21, the crisis we are now involved in, will also fall from 48 percent in the past decade to about 33 percent in the next decade.

The population growth of older citizens who are heavy beneficiaries of health and welfare services will fall from 25 percent to 17 percent.

The growth in population-workload as a whole—which weights the relative expenditure importance of these groups by the age groups,