

and the amount in each age group—is expected, therefore, to decline from 27 percent in the past decade to 15 percent in the next decade.

And I think this is significant in that some of the fiscal pressures, some of the greatest fiscal pressures in the past on State and local governments which were due to population-workload will ease in the coming period. And I think the significance there is that we, due to the baby boom in the past period, have experienced the greatest educational crisis and problem. We didn't completely fail in meeting that. Yet the growth in that group will be much less in the forward period, just from the point of view of numbers. This does not take account of the desirable changes in quality and scope.

Now, obviously the projection of price changes is clearly a much more difficult issue. We assume that there is no serious inflation, and that there will be a continuation of the price performance of the past decade.

Now, in the past decade the deflator for prices of goods and services purchased by State and local governments grew 40 percent. This is 15 percent more than the crisis in the economy as a whole. The gross national product deflator for the economy grew 22 percent. We assume this differential will continue for two reasons. First—and this picks up the point that Mr. Ylvisaker made yesterday—there is lesser increase in the productivity within the service-producing sector of the economy than in the goods-producing sector. And of course State and local government expenditures are heavily weighted by services.

And second, there is the previous shortage, and the present militancy, of certain Government employees, particularly public school teachers, with the result that relative salaries have had to be and continue to be raised. And we expect that this will be a real issue. If we want to have improved services in government, obviously we will have to pay them better salaries. If we want to have teachers who can be effective in meeting the problems of the depressed and those in the ghetto areas, they will have to be much better paid and much more competent in order to be attracted to that kind of very difficult job.

So that we have projected, therefore, that the 40-percent increase and the 15-percent differential will continue for State and local government services.

Now, the residual change in public expenditures not due to these two factors, the population-workload change and the price change, we allot to scope and quality changes. And this can easily, therefore, be calculated as a residual change of the multiple of these three changes. In 1965 State and local government expenditures increased 120 percent over 1955. The relative population-workload was estimated, as we saw, to be 127 percent, and the relative price level 140 percent. Thus, for the past period the scope and quality ratio is 124 percent. This suggests that State and local government services in the past decade improved 24 percent during that decade.

Now, unlike changes in either prices or population-workload, and to a lesser extent, prices, the improvement in scope and quality is subject to substantial policy choices. The extent of the expansion in scope and quality of public services depends on the political decisions made by the people acting in their roles as voters and consumers of government services, as well as government officials. Our model, therefore, does not attempt, as the Tax Institute model, to project a single rate of change in scope and quality.