

and local government officials are much wider than is commonly supposed. They suggest that State and local governments can reduce the burden of inequity, and they can achieve a better balance in their tax systems by taking measures which improve their ability to raise revenue from their own sources.

State and local governments can in the aggregate, therefore, speed the rate of improvement in the scope and quality of public services if they are willing to pay the price in higher taxes. But due to population mobility, and to our increasingly interdependent society, the benefits of public services of one State extend into the other States. Thus they serve regional and national interests, not merely their own. The National Government, therefore, has the responsibility for assisting the States to attain a greater physical strength.

I believe that I have taken enough time.

(The prepared statement of Mr. Kegan follows:)

PREPARED STATEMENT OF LAWRENCE R. KEGAN

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The population-workload factor depends upon the age structure as well as the size of population. The growth rate of the total population is expected to decline from 18 percent in the decade 1955-65 to about 15 percent in the decade 1965-75. But the growth rates in the age groups requiring the most costly public services are expected to decline much more. Thus, the increase in the age group determining enrollment in the public schools, that is ages 5-17, will fall from 35 percent in 1955-65 to about 7 percent in 1965-75. The growth of the college age group, 18-21, will fall from 48 percent in the past decade to about 33 percent in the next decade. The population growth of older citizens, who are relatively heavy beneficiaries of health and welfare services, will fall from 25 percent to about 17 percent. The growth in the population-workload as a whole—derived from weighting the relative expenditure importance of these groups—is expected to decline from 27 percent in the decade 1955-65 to 15 percent in the decade 1965-75. Thus, some of the fiscal pressures on state and local governments due to growth in the population-workload may ease in the coming period.

The projection of price changes is an imperfect art at best. We assume that there will be no serious inflation and that there will be a continuation of the price performance of the decade 1955-65 when the prices of goods and services purchased by state and local governments, as measured by the Commerce Department deflator, grew 40 percent. This is 15 percent more than prices in the economy as a whole. We assume that this differential will continue for two reasons. First, there is the lesser increase in productivity within the service producing sector of the economy than in the goods producing sector, and the relatively heavy use of services by state and local governments. Second, there is the previous shortage, and the present militancy of certain government employees, particularly public school teachers, with the result that their relative salaries have had to be, and continue to be, raised.

We assume that the residual change in public expenditures not due to population-workload and price changes is due to the change in the scope and quality of public services. Since the change in expenditures between one period and another is equal to the multiple of the changes in the population-workload, prices, and scope and quality, the residual change in state and local government expenditures may be calculated by dividing out the effects of workload and price from the total change in government outlays. In 1965, the level of state and local government general expenditures was 220 percent of that in 1955. The relative population-workload level was estimated to be 127 percent and the relative price level as 140 percent. Thus, for 1955-65, the scope and quality ratio is 124 percent, suggesting state and local government services improved 24 percent during the decade. The relations are shown in the equation:

$$\begin{array}{ccccccc} \text{Population-Workload} & \times & \text{Price} & \times & \text{Scope \& Quality} & = & \text{Expenditure} \\ 1.27 & \times & 1.40 & \times & 1.24 & = & 2.20 \end{array}$$