cause they are poor, or Negro, or both, have little chance to escape the deteriorating areas. Amelioration for these hundreds of thousands of people is both politically and morally necessary. Quite apart from moral isues, most cities and the Federal Government appear to have decided that it is necessary to replace obsolete social capital and to compete for residents and businesses in an atmosphere of rising expectations. That is, the cities feel they must offer an environment of public facilities and services which, together with other attractions that the central locations may have, offset the blandishments of the newer and presumably more modern sections of the metropolitan areas where standards of public services and amenity are high indeed.

In the newer sections of metropolitan areas—the new portions of central cities as well as the urbanizing fringes of the metropolitan area—the main governmental problem is the provision of the new social capital needed by a rising population, and a population which has peculiarly heavy demands for public services and facilities, notably schools.

In the aggregate, these urban problems have caused a diversion of resources from private to public use, via tax increases. This relative expansion of the public sector is costly in another way.

If local governments are to command resources, they must pay prices for these resources which are competitive with those prevailing in the economy, notably salaries of public employees. If they are to expand *more rapidly* than the private sector, they must bid away resources by paying even more. This they are doing, as is shown by the rapid increase in urban government salary levels, especially for occupational groups whose talents are in heavy demand in the private sector.

As table 1 suggests, the rate of increase in the expenditure of urban governments is not tapering off; if anything, it is increasing. This is consistent with our observations of the urban fiscal scene (with almost continual fiscal crises), and our observations of the urban social scene, with the huge unmet needs for new and improved public services. But these trends do conflict with some of the recent projections of the outlook for State and local finances in the decade ahead. These projections are generally optimistic, in that they foresee no great fiscal strains, largely because of an expected tapering off of the rate of the increase in expenditure.

The projections may be right, but there is room for skepticism. For example, the projections have not allowed for the recent surge in expenditure for public assistance programs. Between 1962 and 1965–66, local government public welfare expenditures rose by nearly 50 percent, a rate of increase nearly double that found in the more comprehensive sets of projections; in New York State, public welfare expenditures will be more than double those implied by the projections sponsored by the Council of State Governments.[1]

[1] For a recent evaluation of the projections, see *Revenue Sharing and Its Alternatives*, hearings before the Subcommittee on Fiscal Policy of the Joint Economic Committee, U.S. Congress, July 31–Aug. 3, 1967, especially pp. 65–106.