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a. General control includes expenditures for the governing body, courts, office of the chief executive, central staff services and agencies concerned with personnel administration, law, recording, planning and zoning, and the like.

b. Fiscal year.

Source: Department of Commerce, Bureau of the Census.
would have been considered defensible even a generation ago. The new emphasis rests in part upon a belief that in an economy with high interdependence the well-being of one man is of concern to others. Other reasons include (a) the belief that people acting freely will not take adequate account of the effects of their actions on others or even on themselves and (b) a willingness to place increasing reliance on the political process. The courts today seem to believe that the limits of the concept of general welfare should depend almost exclusively upon the decision of law-makers.

Americans have become so accustomed to using state-local government to obtain certain services that we can scarcely imagine a different arrangement. Yet when we look closely at such major functions as transportation, education, and the provision of relief aid, what do we find? Considerable portions of the totals of both educational and transportation facilities are provided privately, bought and freely paid for in the market place. And in meeting the needs of the poor, private philanthropy does much and might do more if the taxes to finance welfare aid were not so high. People acting freely to serve their own interests, including their humanitarian instincts, could, and do, get schools, transportation, and other services of types for which we ordinarily look to state-local governments. Why, then, do we use government as the agency to (a) perform services or (b) make transfers? The services we want badly enough to buy, the schooling which we believe is worth its cost rather than vote taxes of the same amount for the same purpose?

2. The same line of argument also leads to the conclusion that taxes hurt, not only the taxpayer as an individual but also the public as a whole. Families are less able to provide for themselves and to give to those in need. The larger the tax bill, the greater the indirect spreading beyond the person who pays.

3. Taxes cut down the ability of the lowest income groups to support themselves. Taxes also reduce the capacity of families with larger incomes to help those in need, but the deductability of many contributions permitted in computing income tax offsets one-fifth or so for many taxpayers and much more for some.
Can government operate schools more efficiently than private organizations, or assure results of better quality?

Government is an agency for exercising coercion, and compulsion has become intimately associated with the provision of schools. Why? In looking for the reasons, good ones, we can start with the fact that much of schooling differs from most things we purchase in the market. The potential consumer—the uneducated child—cannot judge the value of schooling before he gets it. Good decisions about education require judgment and experience. Although each human being, we feel, should have an opportunity to get an education, not all parents can be counted upon to compel their children to attend school. Government can force attendance. Perhaps it can do so more effectively if it also operates schools.

Education, by enlarging a person’s ability to produce, “pays off” very well in earnings later. Yet if people were left free to make their own decisions on school expenditures, many families, it is said, would not spend as much as would be in the public interest. Why not? Some families would not have enough money. Of course, the public as a whole would have as much as it now pays in taxes for schools. But if people were freer, some would allocate less to schooling because, among other reasons, portions of the benefits for education are intangible. They cannot be measured for comparison with costs. How, for example, could one compute the benefits of education in enlarging the enjoyment of life, understanding society, or meeting the obligations of citizenship? This last question takes us into the area of general welfare.

The results of education affect everyone living in a society, not just the individuals involved. There are “external,” “third party,” “neighborhood,” results. The quality of each person’s life depends in part upon the education of those around him. So do the living standards of the coming generation. Much of the increase in the productivity of the American economy over the past must be credited to the increase in education. A conviction that substantial general benefit does result from schooling provides one reason for requiring, not only that every child attend school but also that the whole public pay the cost.

The tax method of payment for schooling provides a way to spread educational costs over most of a lifetime rather than concentrating them in the years when one’s children are in school. The use of taxes, however, may be criticized as unfair to families who pay for private schools and colleges, thus relieving the public of a cost but themselves paying twice. Another, less widely noted, reason for questioning the extensive use of tax financing is that when payment is compulsory, the “customer’s” power to influence what he gets, especially quality, cannot equal the power he has in the free market. Nevertheless, some influence results from the use of freedom to determine the community in which to live.

The Record and Prospects. A large and unexpected postwar rise in births

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4. The fact that schools are open to all children reduces the force of any potential criticism of the use of taxes from all the public to finance education on the grounds that it is special interest legislation. Yet the requirement that every young person go to school does not require that the school be operated by government, or if it is that it be free from charges. Government payment could be limited to the provision of financial aid to those meeting a test of economic need. If such were the rule, most families would pay tuition charges, being relieved of that large fraction of today’s state-local taxes which would no longer be needed. The development of a system of governmental schools resulted in part from the fact that in many cases there were not enough children within range of feasible transport to support more than one school. “Free” schooling, the absence of a charge for use, does not present serious problems of limiting quantity demanded; other controls—the number of days in the school year—can prevent the problems which would generally appear when something is offered without a charge.
created heavy demand for schools, superimposed on deficiencies accumulated during the Great Depression and World War II. Physical facilities and staffs geared to the 25 million students of the 1930's were grossly inadequate as a million more pupils appeared each year. Huge amounts had to be spent on new buildings and additional staff. Moreover, teacher's salaries rose from a country-wide average of $1,995 in 1946 to $6,400 in 1965 (not including the part of costs of retirement pensions paid for by government). Spending per pupil, went up by 230 percent to $484, even as enrollment rose by 18 million.

The rate of growth in enrollment will ease, but the number of students will continue to increase, demanding more from state-local treasuries. Although Federal funds are becoming available, they are not likely to be on a scale large enough to free localities from the cost pressures resulting from enrollment growth. And another fact of life remains — fortunately: Americans want better education for their children. To offer more schooling per child — more hours in the school day, more days in the school year, more years in school, and greater range of subjects — costs money. So do other elements associated with quality improvement — reduction in class size; more training for teachers; better laboratory, library, and physical education equipment; and special help for children suffering from many types of handicaps. In some areas, raising the quality of schooling available to non-whites will put special burdens on school budgets.

Rising outlays for college and university education are adding to the pressures on state, and some municipal, budgets. Through most of our history, private institutions with no taxpayer support have provided most college education. Since World War II, however, governmentally supported colleges and universities have been growing more rapidly than private. Increasing demand for places in college has led state-local governments to step up their outlays for higher education — from $1.6 billion in 1955 to $5.9 billion in 1965. The total will probably double before 1975. The net addition to pressures on state-local finances will depend in part upon the extent to which state-local colleges make use of tuition and other charges and partly on the growth of Federal aid.

*Streets and Highways*

Streets, highways, and other transportation facilities account for the second largest group of state-local expenditures.

*Reasons for Governmental Provision.* Building and maintaining streets seems obviously something to be done on a community basis. Living together reasonably well in neighborhood or city requires ability to move around easily. Everyone needs access to his own property and to that of persons with whom he wants to deal. From early times local governments have provided streets — sometimes merely land that was not under the private ownership which would permit one person to deny use by others, but often also special surfacing.

Between communities, the earliest communication relied heavily upon rivers and oceans; though Romans and Incas built extensive highway systems, land transport lagged. Later came canals

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5. About three percent of the total has gone to aid non-governmental colleges or students attending them. For a discussion of the problems, see Tax Foundation, Inc., *Public Financing of Higher Education* (New York: The Foundation, 1966).
and turnpikes; in this country they had varying amounts of state-local financing. In rural areas the natural way to get roads to town was for farmers to do the relatively simple work when they had time free. Essential, however, was use of the power of government—to set aside the land required and to compel every male to do a part (or pay others to do so). Compulsion was appropriate because everyone would benefit from using roads.

This approach, however, could not meet the demands as more and more autos appeared. Governments, frequently counties, came under increasing pressure to provide better roads. By World War I state-local governments had embarked on the provision of streets and highways on an expanding scale.

Let us pause a moment and ask, “Why use government to provide (some) transportation facilities?” Several reasons, good ones, appear. For one thing, transportation affects the public as a whole, not merely the persons who supply or those who directly use, the facilities. For one thing, the efficiency and effectiveness of an economy depends upon the “division of labor,” mass production, specialization. Individuals, companies, and areas will be most productive if they concentrate on what they can do best. To do so, however, they must exchange with each other, and exchange involves costs, one of which is transportation. The lower the cost of transportation, the cheaper will be exchange and the richer will be the possibilities of specialization in production.

The greater, too, will be the availability of goods and services for consumption. Moreover, the development of transportation affects the general welfare by enlarging the range of opportunities open for personal movement, access to the things each individual wants to buy, and the markets in which to sell the fruits of his services or his property. Another benefit is that the likelihood of local business monopoly is reduced when improvements in transportation make competition from outside easier. National defense needs also argue for good transport.

Provision of streets and highways without charge for use has another result. A private owner would need to collect fees to cover his expenses. For streets and highways the collection would be a costly nuisance.

Government financing of some transportation facilities also finds support in economic analysis of a bit more complex nature. Some expenses are largely fixed (overhead), and up to capacity use they do not depend upon the amount of use—a bridge or highway built to handle peak-load traffic involves heavy outlays for the basic structure, but such costs are affected only a little, if any, by the amount of use. The capital cost of a bridge, for example, may be $1 million a year, whether there are 500,000 or 3 million users. If a price or charge of $1 a crossing were imposed for each specific use, and if this price were high enough to cover the full costs, the charge might deter some users; the facilities would then be utilized less fully, say by 1 mil-

6. The outstanding development of the nineteenth century was the railroad, predominantly private enterprise. The role of government varied. The power of eminent domain was granted to enable railroad companies to take private property, paying compensation, so that direct routes could be built. Some railroads got subsidies —Federal, state and local—in different forms. Perhaps the best known, the land grants in the West, brought the U. S. government large discounts on shipments of Federal freight and the movement of military and other personnel; the dollar saving up to the time the discounts ended after World War II was several times as large as the estimated worth of the land.

7. An integrated system cannot be built without the use of government’s power of compulsion—eminent domain—but as in the case of railroads, pipelines, telephone and electric wires, the power can be granted to private firms for use under government control.
lion rather than 2 million who would use the bridge if there were no charge. Nevertheless, little savings in real resources (costs) would result from the price-induced partial idleness, the waste of 1 million crossings in the example. Society would suffer a true net loss from the failure to use the existing capacity more fully. By not charging for each specific use of highways and similar facilities, the public gets more benefit from them than if prices were charged and use restricted—until congestion becomes a problem. When congestion appears, however, any failure to impose charges which can equalize the quantities demanded with the amounts supplied will result in disadvantages for users, especially the wasteful loss of valuable time.

For the reasons given, and others, it is argued that society should have more transportation facilities than would be provided by private industry on a commercially feasible basis. But what proportion of our available funds should be spent for streets and highways rather than for other desirable purposes, governmental or private? Existing guides are by no means clear. Some indication comes, however, from the revenue from special taxes on highway users, who pay taxes generally earmarked for streets and highways. In 1965, for example, state-local motor vehicle license and fuel tax revenues were about $6.5 billion. Expenditures were $12.2 billion. Yet there is little basis for saying that the amounts are generally in line with, above, or below what would be optimum.

State and local governments bear more than two thirds of the cost of constructing and paying for highways and streets. (Federal grants to states account for the rest.) Costs, e.g., land acquisition in cities as well as outlays for actual construction, rise rapidly. Does improvement keep up with the growth of the auto-truck population? In parts of most cities anyone can see the desirability of more and better streets and parking space. Many streets and highways were built for an era of fewer cars (or even none at all). The wasted time, the cost of accidents, the wear and tear on nerves, the expense to business of congestion, the damage to cars from bad surfaces—all these conditions support arguments for the continuous improvement and expansion of highways and streets. But such improvements should be made in the perspective of a broader need for an efficient policy which takes account of all aspects of transportation, including railroads, waterways, and air transport, as well as other things which, especially in metropolitan areas, are intertwined with transportation. How can growing needs for all forms of transportation be met most efficiently? To what extent might greater effort to encourage use of mass transit be wise? Such questions, and many others, call for more facts and analysis than yet available.

Relief Aid for the Poor

Year after year state-local governments spend more (in transfer expenditures) to aid the poor. Why do people use government to provide such assistance?

When America was largely agricultural, the family itself usually took care

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8. Motor fuel taxes relate to the amount of an individual's use of streets and highways, but only roughly. They do not have any necessary relation to the cost of facilities.
9. An additional $2.8 billion was collected in Federal motor fuel taxes; Federal payments to state and local governments for highway purposes came to nearly $4 billion.
10. Most localities (or states) tax railroads more heavily than other businesses but without special benefits from government spending. Air transport generally pays less for airports, weather information, and traffic control than the costs to government of providing the services.
of members who did not produce enough to support themselves. For others who became destitute, the church and private individuals provided some assistance. But following British precedent, American local governments (often the county) supplemented private help by providing at least some minimum aid.

The essential argument for such aid ran as follows: The misery of destitution cannot be tolerated by a public able to offset it. Through taxes, everyone should be compelled to bear part of the cost of alleviating truly severe want. Otherwise an unfair part of a social burden would fall on persons of good will; society's shirkers would gain to the extent that the public benefited from helping the destitute.

Through most of our history the cost of government welfare aid has been a relatively small percentage of state-local expenditures. In 1927, for example, only about 2% of local-state spending (compared with the 8.4% of 1965) went for "public welfare."

The money frequently maintained a farm or a house ("poorhouse") in which a person upon meeting a means test (proving his or her need) could get food, clothing, and shelter. Some labor was generally expected from those able to work.

The depression of the 1930's multiplied the need for relief. No longer was the problem largely confined to older people, orphans, and others not physically or mentally able to work. Unemployment hit families of types which ordinarily would never have dreamed of seeking public assistance. The times called for new kinds of programs and new methods of finance. Many states acted to supplement local funds, but as the depression deepened, even state governments found the financial requirements impossibly burdensome. Federal help came, first on an emergency basis. Then Congress set up a more permanent system for paying around half, later more, of the costs of aid for elderly poor persons, children without support from fathers, and some others.

State-local programs for helping the poor, and Federal supports, have expanded in scope, cost, and complexity. Relatively more assistance is provided in the home and less in institutions than in the past. Pressures to spend more continue even though the economy rises from one high level of prosperity to another, and even though more and more persons in retirement get Social Security and private pensions. Why?

For one thing, the number of children in poor households without a father has increased greatly; in 1964 five times as many children received public assistance as 20 years earlier and twice as many as in 1954. Another factor, of course, is that prices have gone up. So have our standards of what, by humane criteria alone, should be available to everyone as a minimum.

Moreover, advocates of larger welfare aid argue that more than humanitarian considerations should be considered in judging governmental outlay for the poor. Children growing up in family and neighborhood environments of deep poverty develop less of their potential for becoming reasonably productive

11. In dollars of 1965 purchasing power, per capita income in the U. S. was then about $1,280 compared with $2,724 in 1965. Yet in the latter year per capita state-local spending for relief was 14 times the 1927 average in dollars of 1965 buying power. These figures do not include OASDI and unemployment benefits.

12. These aid programs made up one part of what is known as "Social Security." Other parts consist of systems of compulsory insurance. One puts a tax on the employer to pay benefits to employees when they become unemployed. Another taxes both employer and employee to finance retirement benefits. Workers who become disabled and some other persons needing medical care also receive help.
through their working lives. Not only those who fail to receive education, training, and motivation for getting ahead, but also others in the economy will be the losers. And, the argument continues, new generations will not escape the trap of poverty. Some people who could have become self-supporting will remain on welfare rolls. Public health, personal safety, the whole environment will suffer. Thus, it is said, there is a general public interest in trying to improve opportunity for the poor by a “war on poverty.”

New Federal money and leadership, partly through the Office of Economic Opportunity, to step up state-local aid began to become available in 1964. The dollar amounts are small in relation to public assistance already being provided. There is hope, however, that new types of programs with new leadership can speed up the process by which members of the lowest income groups rise above the poverty level. Only time will tell how much can be accomplished and which methods offer most promise. Eventually, the operation of the many forces, old and new — education, capital accumulation, advance in knowledge, social insurance — should relieve some of the welfare-aid demands on state-local finances by reducing the sources of poverty. For years, however, the upward trend in outlays for assistance seems likely to continue. Moreover, in the law which set up Medicare for persons over 65, Congress also provided “Medicaid,” funds to encourage states and localities to enlarge medical assistance for the poor; the dollar costs are still unknown but may come to overshadow other welfare outlays. Modification of one widely criticized feature of most programs would not only reduce costs to the taxpayer but also help some of the poor to become productive members of society: today a person on relief who earns something must often suffer a loss of equal amount of public aid; a less drastic rule which would enable a person to benefit from his efforts would improve incentives and have other advantages.

The administration of public assistance presents many difficulties. Why money is given away, how can abuses be prevented? To locate them requires staff skill, time, and facilities, all of which in themselves cost a good deal. Inefficiencies, the red-tape of bureaucratic administration, and client indifference, create formidable obstacles to efficiency in administration. The building of a social work organization for dealing with individual cases constructively requires funds and trained staff on a scale rarely found.

Unemployment Benefits

All states have systems for paying weekly benefits to most persons who become unemployed after working for a few weeks. These transfer payments, free from income tax, are received as a matter of right and without regard to need. Weekly maximum benefits range from around $30 to $65 per week and in most states can continue for 26 weeks. The law requires that benefits be limited to persons who cannot get jobs generally appropriate to their skills. Employers, who are subjected to special taxes on payrolls to pay all the cost, sometimes criticize enforcement as lax, permitting people for whom jobs could be found to draw benefits. Neither the taxes nor the benefit payments appear in government budgets as ordinarily presented.

13. For some programs states and localities must pay part of the expense. At least for the near term, therefore, the anti-poverty program will add to their own outlays.
Expenditures, of course, rise and fall as changes in the level of business alter employment—from one season of the year to another and from one phase of the business cycle to the next. Benefits thus act as a “built-in stabilizer” for the economy by enabling consumers to maintain some of their buying when earnings stop. Even in 1965 when the economy was prospering as never before, however, state payments under unemployment insurance were $2.2 billion.

States have gradually increased the average benefits payable and the maximum period per person. Proposals for enlarging benefits further, and raising tax costs, receive varying amounts of support. One problem is to distinguish between persons only “loosely” attached to the labor force—second or third workers in a family who may not really want full-time work—and those with more serious responsibilities and needs.\(^\text{14}\)

**Health and Hospitals**

State-local spending on health and hospitals rose from $12 per capita in 1950 to $28 in 1965. The progress of medical science has cut down the need for what was once a major expense, hospitals for the victims of tuberculosis. Unfortunately, mental illness, for which states have long provided some hospitalization, continues to make heavy demands. In many cases the quality of care remains clearly below the level needed to provide reasonable comfort, or to return the ill to a useful role in society.

Provision of hospitalization and other medical service for the poor generally falls upon the local government, which usually relies on municipal clinics or hospitals but sometimes uses private hospitals which then receive government compensation. Adequacy of quality and quantity varies greatly. So does the effort to require patients to bear part of the cost when financially able.

In spite of the growth of Blue Cross and other private insurance, demands for more and more state-local health and hospital aid go up as population, especially of the aged, grows; as the costs of hospital operations increase; and as better quality of care becomes the accepted goal. Eventually, Federally financed Medicare should reduce some of the demands on state-local medical service for the aged poor. For others with low incomes, however, large expansion of tax-financed outlays seems certain if only because of Medicaid,” mentioned above.

Local governments supply a variety of public health services. Many are primarily preventive—detecting and checking the spread of communicable disease, assuring the purity of water and food. Costs are generally paid in part by charges and do not put large burdens on the taxpayer. Without compulsion by government, individuals would have no practical means of forcing others to maintain adequate (or even tolerable minimum) standards of sanitation and disease prevention.

**Police and Fire Protection**

Living together in a large society would be impossible without policing, which provides both safety for the person and protection of property on which production and income depend. Policing, as noted earlier, meets a “collective need.” Accomplishment requires the ability to use force in ways and amounts

\(^{14}\) See *Issues in Unemployment Insurance*, Government Finance Brief No. 5, Tax Foundation, May, 1966, for discussion of this and other problems.
which cannot be left to private persons or groups. In general, such service cannot feasibly be left to individuals to "buy" at their voluntary choice.\textsuperscript{15} Whatever protection is provided serves all the neighborhood, even the whole city, not merely an individual or business. If individuals were left free to decide how much of the cost to pay, the total payments would probably fall short of the amount needed to finance protection adequate for the public as a whole. So we look to government, largely local, to which states have assigned most of the responsibility.

Some policing consists of regulation which requires little expense; but other types—traffic control, meeting the many problems of crime—call for personnel and facilities whose cost is a significant part of municipal local budgets. Spending per capita varies considerably from place to place. The national total per person went up from $7 to $13 in the 10 years to 1965. Yet crime seems to rise. Officials seek not only more funds to meet the growing problems but also new methods.

Another form of protection, that against fire, must also be available to everyone in the sense that no one can be left free to reject it; if he were to do so, he would endanger the property of his neighbors. Since everyone must be compelled to have his property protected, should not sharing of the cost also be compulsory? Not entirely, we believe, for in many communities volunteers still provide a good deal of the manpower needed for emergencies. The average cost to local government for men and equipment was $7 per capita in 1965, but $14 in the 5 largest cities.

\textbf{Other Functions and Expenditures}

As shown in Table 6, on page 17, local and state governments spend for general administration, legislative bodies, libraries, parks, courts, interest on debt, and a variety of other functions. The functions undertaken and, of course, accomplishments are by no means uniform over the country as a whole. In some cases the municipality sells water, electricity, and gas, or provides such services as local transportation, sewerage, and garbage disposal; while in other communities homeowners and businesses rely on private suppliers. Local government charges may cover all expense, even yielding a surplus on occasion; or they may be less than costs, in which case some subsidy is provided, presumably from general tax revenue.

To varying extent, states and localities furnish housing, airports, pollution control, aid in urban renewal, recreational and cultural facilities, staffs to attract new industry, and so on. Some may grow substantially in importance, not only in terms of dollars but also in their effects on the way we live. For example, urban and regional planning and intergovernmental cooperation are increasing.

Not everyone in a locality benefits equally from local spending; nor does everyone in a state gain equally from state spending. Chapter VI presents estimates of the differences in benefits from one income level to another and relates them to estimates of the taxes falling on the same income groups.

\textsuperscript{15} Many businesses hire private guards and pay for protection to supplement what government provides. Such private policing, however, must be restrained by law.
III.
Control of State-Local Spending:
The Search for Efficiency

Government, "the people's business," is big business — and vital. The dollars we spend through state and local governments total more than enough to warrant the most serious of efforts for efficiency. The functions performed are so important in our lives that the drive for good quality of performance deserves support.

Efforts for Improvement

Although battles against corruption in city government had been fought before, the civic reform movement of the 1890's began the more or less systematic search for better procedures. One line of effort was to improve the electoral process and other aspects of governmental procedure. Another was to bring to government the principles of scientific management which were then being introduced in business.

Here and there, and gradually over more of the country, achievements were recorded — in reforming government structure; in altering election machinery; in encouraging research and training; in establishing the merit system for civil service. There has also been success in applying and broadening the use of many devices for improving the making of decisions and the actual management of affairs — budgeting, accounting, purchasing, personnel administration, and improvements of types which management consultants bring from successful use in business.

Making Decisions on State-Local Expenditures

How do state and local governments select the functions on which to spend? How do they determine the amounts? The decision processes differ tremendously—from place to place, time to time, function to function. Even a summary examination would far exceed the space available here.1

One condition almost always exists: In planning the spending budget, any governor or mayor, any state legislature or city council or school board, finds that in fact many decisions affecting expenditures for the near, and more distant, future have already been made. To large extent the major functions to be performed, and also their scope, have been determined. People have been hired, salaries promised, contracts signed, commitments made, all to a degree that permits little if any reduction; often, in fact, the commitments compel expansion. Thus decisions made in the past curb freedom today. Moreover, limits on funds restrict actions which will require additional outlays; and such obstacles as shortages of skilled personnel influence decisions. Federal policies now exert

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considerable influence on state and local spending and increasingly reduce the room for choice.

State laws compel local governments to offer services such as schools and policing. State-imposed salary and other standards can do much to set the minimum totals which localities must spend. Therefore, the amount over which local officials have effective control may be only a small fraction of the whole budget. And at all levels of government inertia encourages the approval for next year of funds to pay for functions performed in the current period.

Always, however, difficult problems must be decided, spending choices must be made. The “big money” issues are those involving the nature and scope of programs — school construction, retirement pensions for employees, levels of aid for the poor. But there are also problems of how to do what has been decided upon, i.e., the execution or operation of such programs as protecting against fire damage, teaching mathematics, or setting specifications for a sewer extension. Program decisions may be made in “substantive” legislation that results from the lawmaking process which is largely or entirely outside the normal budgeting procedure.

The strongest pressures will usually be those which require greater spending — for new activities and the enlargement of those in existence. School population may be growing, auto congestion increasing, prices rising, more persons seeking relief. Other forces operate. Inside government, the staffs of agencies will generally support proposals to enlarge and improve the services they are providing. Employees also press for salary increases and the expansion of fringe benefits. From outside government there comes equally or more powerful advocacy of more spending. Neighborhood organizations, the Parent-Teachers Association, highway users, and other groups will actively support the expansion of particular activities. Federal grant-in-aid programs also add pressure for spending more — on what is being done and on new activities.

The reasons given to justify spending more may be well founded, but not necessarily. Even if the worth of a proposal to the general public, which must pay the bill, is less than the cost, influential support may come from the minority which would benefit the most. For individuals and relatively small groups, the benefit expected can far exceed the cost which they must bear. On the other hand, things that would be well worth doing may not get backing commensurate with their merit because the facts are not clear. More money, skill, and devotion than are available may be needed for adequate analysis and the mobilizing of support. The realities of the political system do not assure that the strength of effective support — and opposition — from inside and outside government will be related appropriately to the net advantage, if any, to the public as a whole. Nevertheless, lack of evidence, indifference, and disregard of some interests can be overcome, or at least reduced. Reapportionment will presumably improve the balance of power. Increasingly there is a requirement that proposed legislation include a “price tag” or “fiscal note” to make the cost explicit. New forms of presenting budget data are helping provide a clearer understanding of what is to be accomplished by proposed spending.

Procedures for budget preparation differ widely. States and cities generally have budget staffs to screen re-
quests for funds and, perhaps with other official personnel, to help evaluate the results of past spending. In some cases deliberate effort is made to rank proposals according to priority. Executive responsibility has been increased, but most governors find that a sizable fraction of spending is in fact exempt from budgetary control. Moreover, executive influence is weakened by the ability of agencies to appeal directly to the legislature. Within legislative bodies many types of arrangements are used in dealing with requests for appropriations and in relating the appropriations process to voting on substantive legislation and revenue measures. Although most governors have power to veto individual items of spending legislation, the use of such power is infrequent.

**Leadership for Improvement**

Obviously, progress depends upon leadership of many types. One major problem involves improving the bases for decisions about programs. Who can have the expert skill, the experience, the time, and the inclination to learn the facts and to evaluate them completely and objectively? Sometimes, more often at the local than at the state level, the citizen as an individual can play a role of influence and competence. But few of us are qualified and have the time and energy to deal with the many and complex problems of state-local spending of our money. To help meet this need, permanent citizen organizations in some cities and states support research staffs and provide leadership for continuing analysis of spending proposals and active operations. Special citizen commissions and study groups advise on particular problems.

Within government various methods are being developed to bring more expertise to bear upon decisions. Some executives and legislative bodies, for example, have professional staff aid. Thousands of units of government, however, are much too small to employ persons with the special skills needed for efficiency and good quality performance.

Many devices for raising operating efficiency are now used successfully in one place or another. For example, progress has been made in learning: (1) how more mechanization is economical, and in what specific ways; (2) where reliance upon outside contractors offers savings [over trying to maintain a city or state staff]; (3) how filing and record-keeping can be simplified and made more effective; (4) ways to make better use of office space and to reduce costs of building maintenance; (5) how reform of purchasing methods can be instituted; (6) the opportunities for developing and using cost accounting, with the computation of 'standard costs' to guide operations; (7) how to search out the best methods being used and then to transfer them where appropriate . . . ; (8) ways to improve personnel management, including suggestion systems, incentive plans, and training programs; (9) the uses of capital budgeting projected further into the future; (10) substitution of less expensive for more expensive personnel in certain jobs; (11) planning the flow of work to make fuller use of personnel and equipment all the time; (12) renting, buying, and caring for public property more efficiently; . . .

2. Greater use of charges, as noted below, would expand the opportunities to use the more or less automatic mechanism of the price system to permit individuals to indicate their preferences for certain services in relation to the cost.

3. Pioneering attempts are being made to solve the basic, but extremely difficult, problem of measuring the benefits of a program and to compare them with the cost. To date, cost-benefit analysis appears to have proved of only limited practical value for state-local government.
(13) disposition of surplus items on better terms . . . The use of computers offers increasing opportunities for improving the quality of some services and reducing, the cost of others.

Experience shows that cooperation among localities in the same metropolitan area can yield better service at lower cost. Undoubtedly, there are many opportunities for raising efficiency by consolidating small localities, reducing overlapping, and making other forms of governmental reorganization. States could enlarge what are still meager programs for making specialized skills and equipment available to localities.

Much state-local spending — 53 percent in 1964 — goes to pay wages and salaries. Many governmental activities seem to offer only limited opportunity for the use of capital equipment to raise the man-hour productivity of labor. Civil servants and teachers show resistance to merit-rating as a basis for salary change and promotion. For these two reasons, and others, the possibilities of raising efficiency in government appear to be less than in much of private industry, generally.

Yet there is progress. To improve the quality of service, raise efficiency, and aid in programs of common interest, increasing effort is going into the exchange of views and the active cooperation among state and local governments. For example, associations of governmental officials and various civic, professional, and business groups make serious efforts to benefit from the experience being accumulated. Still, we are a long distance from a goal of taking reasonably full advantage of what is already known about tested opportunities for improving the organization and operation of state-local government.

The many efforts of many different types being made to improve the operations of government are bearing fruit. The problems are difficult, but, as experience has shown, skill and determination can yield solutions in some cases, partial solutions in others.

IV.
Criteria for Judging a Revenue System

Until the 1940's except for periods dominated by war, local governments collected more in taxes than the states or the Federal government, sometimes more than the two combined. Table 7. Although local governments now raise far more tax revenue than ever before, local taxes are less predominant in the national total than before World War II. Localities are less independent financially, and states have become relatively more important as taxers. One reason they have done so has been to provide more dollars to local governments.

When a state or local government must get more revenue — by raising tax rates, adopting new types of taxes, or both — there is need to compare alternatives. What features make one revenue system better than another? What are the criteria to be used in judging a tax system? Before examining the criteria let us note five points.

1. Taxes are paid by people — not by "real estate," "gasoline," "business," or any inanimate thing. A tax collected from a corporation is, in any significant sense, paid by customers (in higher prices), employees (in lower wages), suppliers (in lower prices for their wares), or stockholders (as reduction in either dividends or net worth).

2. Although everyone's taxes must be paid out of his income, this fact does not mean that income is necessarily the best basis for all taxation. The income a person receives is the market's measure of the worth of what he and his property have produced, i.e., put into the economy. His spending for consumption is the measure of what he takes from the production of the rest of the economy. Taxes based on income are taxes governed largely by the value of contributions to society. Taxes based on expenditure are levies governed by what a per-

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a. Includes social insurance taxes.
b. Fiscal year.

Source: Department of Commerce, Bureau of the Census.
son uses up or withdraws from the economy.

3. Present costs of Federal-state-local government are so high that taxes inevitably have an important impact upon everyone. The average — about $750 per capita — is higher than some people can possibly pay; it is above what others can reasonably be expected to bear. Some people must pay more than others. In deciding how the costs are to be shared, the public faces difficult problems of achieving "justice."

4. High tax rates in themselves — disregarding the amounts they take from people — produce bad effects. When the rate is high, efforts to escape tax become worthwhile. Individuals and businesses will take what would otherwise be a second, third, or fourth choice in their job, investment, consumption, or business decisions if by doing so they can save a heavy tax. Manipulation of the tax base, i.e., the amount to which the tax applies, becomes sensible, even essential, when tax rates are high. Economic distortions result. What determines the height of tax rates? The level of government spending is obviously of prime importance, but the size of the tax base is also crucial. The broader the base, the lower the tax rate needed to produce any given volume of revenue. The broader the base and the fewer the exceptions, the greater the difficulty of manipulating it to save any substantial portion of the tax.

5. The size of the taxing jurisdiction profoundly influences the choices it can make among revenue sources. Therefore, the criteria properly used in evaluating a state revenue system differ from those appropriate when either national or local systems are considered. Yet each tax at each level of government must be judged as part of the whole system of public finance. This system also includes government spending at each level. Neither taxation nor spending considered alone deals with all that is relevant.

Revenue

The chief job of a tax system is to bring in adequate revenues. Each particular tax must be judged on the basis of its revenue potential, and this involves chiefly the breadth of its base. Large expenditures call for taxes with broad bases.

Revenue stability in the short-run is important for states and localities. Most state-local expenditures (except capital outlays) fluctuate little from year to year. Paying for them requires revenues which are generally stable even if the level of business activity rises and falls. A drop in revenues during recessions may not only force curtailment of normal operations but also prevent adequate provision for the probable increase in relief loads. Sharp increases in revenue during boom times invite wasteful spending and the formulation of programs on the basis of short-run surges of the economy.

Automatic upward elasticity has advantages if pressures for spending increase from year to year. If revenue yield goes up without need for explicit action on the tax rate, political strains are less than otherwise; unfortunately, the care devoted to decisions on expenditures will also be less than when increases in outlays must be related to action — explicit decisions — to pay more in taxes.

Distribution of Tax Burdens

Fairness, Justice, Equity. Where taxes are involved, fairness is of paramount importance. However, trying to define