

# State and Local Government Fiscal Position in 1997

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**T**HE CURRENT surplus of State and local governments, which is a measure of the net saving by these governments, increased \$2.5 billion, to \$107.8 billion, in 1997 from \$105.3 billion in 1996 (table 1, chart 1).<sup>1</sup> As in recent years, little of the increase in the current surplus was accounted for by employee retirement, workers' compensation, or other social insurance funds; instead, it was mainly accounted for by general receipts and by current expenditures for other programs, which include education, medical care, highways, and police. The social insurance funds surplus increased \$0.1 billion, to \$71.4 billion, and the "other" funds surplus increased \$2.2 billion, to \$36.3 billion.<sup>2</sup>

## Receipts

State and local government receipts increased 4.5 percent, to \$1,090.4 billion, in 1997 after increasing 4.4 percent in 1996 (table 2). General own-source receipts—that is, receipts exclud-

ing contributions for social insurance and Federal grants-in-aid—increased 4.9 percent in 1997, compared with a 4.8-percent increase in 1996. All the major components of receipts increased.

**Personal tax and nontax receipts.**—Personal tax and nontax receipts, which accounted for about 20 percent of total State and local government receipts, increased 7.0 percent, to \$214.3 billion, in 1997, an acceleration from a 5.7-percent increase in 1996. Personal income tax receipts increased 7.2 percent, to \$159.8 billion, after a 6.3-percent increase. Personal income accelerated only slightly to a 5.8-percent increase from a 5.6-percent increase. The faster acceleration in personal income taxes than in personal income is within the normal range of variation, but it may also reflect increases in taxes on other types of income, such as capital gains. State legislative actions reduced income tax receipts by \$0.6 billion in 1997; excluding these actions, income tax receipts would have increased 7.6 percent.

Personal nontax receipts (largely fines, donations, and unclaimed bank deposits) increased

1. The NIPA current surplus or deficit reflects the treatment of government investment that was introduced in January 1996. Current expenditures now include (1) consumption of fixed capital for general government in consumption expenditures, and (2) consumption of fixed capital for government enterprises as an expense in the calculation of the current surplus of government enterprises. Gross investment in fixed assets by general government and government enterprises is no longer classified as a current-account expenditure in the year the asset is purchased but is classified, instead, as an expenditure over the service life of the asset.

2. The social insurance funds surplus is calculated as the sum of receipts from personal contributions and employer contributions for social insurance plus interest and dividends received less transfer payments and administrative expenses (consumption expenditures) of social insurance funds. The detailed estimates of social insurance funds receipts and current expenditures are shown annually in NIPA table 3.14, most recently in the August 1997 SURVEY.

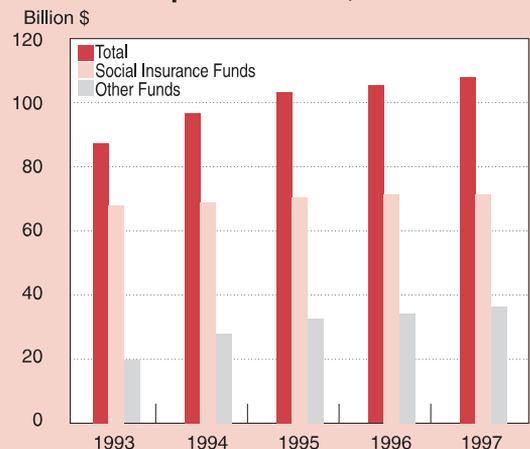
**Table 1.—State and Local Government Receipts, Current Expenditures, and Current Surplus or Deficit, NIPA Basis**  
(Billions of dollars)

	Calendar years				
	1993	1994	1995	1996	1997
Receipts .....	894.4	949.2	999.0	1,043.4	1,090.4
Current expenditures .....	807.0	852.3	895.9	938.0	982.6
Current surplus or deficit (–) .....	87.4	96.8	103.1	105.3	107.8
Social insurance funds .....	67.8	68.9	70.5	71.3	71.4
Other funds .....	19.7	27.9	32.5	34.1	36.3

NOTE.—The estimates for 1996–97 are in NIPA table 3.3 of this issue of the SURVEY OF CURRENT BUSINESS; the estimates for 1992–96 are in NIPA table 3.3 of the August 1997 issue. NIPA National income and product accounts

**CHART 1**

## State and Local Government Current Surplus or Deficit, NIPA Basis



U.S. Department of Commerce, Bureau of Economic Analysis

7.6 percent after a 7.9-percent increase. "Other" personal tax receipts increased 5.4 percent after a 0.4-percent decrease; the upturn was accounted for by upturns in motor vehicle license taxes and in other taxes (largely hunting, fishing, and other personal licenses).<sup>3</sup>

**Corporate profits tax accruals.**—Corporate profits tax accruals, which accounted for about 3 percent of total receipts, increased 9.0 percent in 1997, following a 10.9-percent increase in 1996. The deceleration reflected a deceleration in corporate profits. Corporate profits before tax increased 7.9 percent after increasing 8.7 percent.

**Indirect business tax and nontax accruals.**—Indirect business tax and nontax accruals, which accounted for about 48 percent of total receipts, decelerated slightly in 1997; they increased 3.8 percent, to \$528.1 billion, in 1997 and 4.0 percent in 1996.<sup>4</sup> Sales taxes, which accounted for about 49 percent of indirect business tax and nontax accruals, continued to decelerate; they increased 3.0 percent, to \$257.4 billion, in 1997 and 4.3 percent in 1996. All the components of sales taxes except taxes on alcoholic beverages and on insurance receipts decelerated; both these com-

ponents accelerated. The deceleration in general sales taxes is partly attributable to a deceleration in retail sales, which increased 4.1 percent in 1997 after increasing 5.2 percent in 1996. Tobacco sales taxes decreased \$0.2 billion in 1997. Legislative actions reduced sales taxes only slightly in 1997; excluding these actions, sales taxes would still have increased 3.0 percent in 1997.

Property taxes, which accounted for about 40 percent of indirect business tax and nontax accruals, accelerated in 1997; they increased 3.2 percent, to \$208.8 billion, after decelerating for 7 years.

"Other" indirect business tax and nontax accruals increased 9.2 percent, to \$62.0 billion, in 1997 after increasing 8.2 percent in 1996. The acceleration was primarily accounted for by motor vehicle license taxes and indirect business nontax accruals. The pickup in nontaxes was attributable to payments of \$0.9 billion to two States by tobacco companies as a result of out-of-court settlements of lawsuits. Severance taxes and "other" indirect business taxes decelerated.

**Other receipts.**—Contributions for social insurance, which accounted for about 8 percent of total receipts, increased 5.9 percent, to \$86.2 billion in 1997, an acceleration from a 5.3-percent increase in 1996. Employer contributions accelerated, primarily reflecting an acceleration in private workers' compensation contributions. Per-

3. The detailed estimates of personal tax and nontax receipts are shown annually in NIPA table 3.4, most recently in the August 1997 SURVEY.

4. The detailed estimates of indirect business tax and nontax accruals are shown annually in NIPA table 3.5, most recently in the August 1997 SURVEY.

**Table 2.—State and Local Government Receipts, NIPA Basis**

	Calendar years								
	Billions of dollars					Percent change			
	1993	1994	1995	1996	1997	1994	1995	1996	1997
<b>Receipts</b> .....	<b>894.4</b>	<b>949.2</b>	<b>999.0</b>	<b>1,043.4</b>	<b>1,090.4</b>	<b>6.1</b>	<b>5.2</b>	<b>4.4</b>	<b>4.5</b>
General own-source receipts .....	639.9	676.5	709.8	743.7	780.1	5.7	4.9	4.8	4.9
Personal tax and nontax receipts .....	167.4	176.8	189.4	200.2	214.3	5.6	7.1	5.7	7.0
Income taxes .....	124.2	131.2	140.3	149.1	159.8	5.6	6.9	6.3	7.2
Nontaxes .....	23.4	24.8	26.7	28.8	31.0	6.0	7.7	7.9	7.6
Other .....	19.8	20.8	22.4	22.3	23.5	5.1	7.7	-4	5.4
Corporate profits tax accruals .....	26.9	29.9	31.1	34.5	37.6	11.2	4.0	10.9	9.0
Indirect business tax and nontax accruals .....	445.6	469.8	489.3	508.9	528.1	5.4	4.2	4.0	3.8
Sales taxes .....	214.8	228.2	239.4	249.8	257.4	6.2	4.9	4.3	3.0
Property taxes .....	185.0	191.4	197.4	202.3	208.8	3.5	3.1	2.5	3.2
Other .....	45.9	50.2	52.5	56.8	62.0	9.4	4.6	8.2	9.2
Contributions for social insurance .....	68.7	73.4	77.3	81.4	86.2	6.8	5.3	5.3	5.9
Federal grants-in-aid .....	185.8	199.2	211.9	218.3	224.2	7.2	6.4	3.0	2.7
Addenda: Receipts excluding selected law changes: <sup>1</sup>									
Total .....	893.7	947.4	997.3	1,042.7	1,090.3	6.0	5.3	4.6	4.6
General own-source receipts .....	639.2	674.8	708.1	743.0	780.1	5.6	4.9	4.9	5.0

1. Estimates of the effect of law changes on receipts are calculated as follows. For changes of which BEA is aware (hence the use of "selected" in the line title in the table), the estimate is the amount of the change over the 12-month period after the change is introduced. For personal taxes, the change is introduced when the tax is paid or refunded or when the withholding is changed. For indirect business taxes, the change is introduced to coincide with the transaction affected. The calculations are made by months for personal taxes and nontaxes (because they are used to prepare monthly estimates of disposable personal income) and by quarters for other taxes. Two characteristics of the resulting estimates should be noted. First, aggregation of the monthly or quarterly estimates to calendar years may give results that appear anomalous. For example, a sales tax imposed for 1 year beginning July 1 would be recorded as follows: (a) For quarters, an increase in receipts by the amount of the 12-month yield in the third quarter of that

year and a decrease by the same amount in the third quarter of the following year, and (b) for calendar years, an increase in receipts by the amount of the 12-month yield divided by 2 in the year that the increase takes place, no change in receipts in the following year, and a decrease by the amount of the 12-month yield divided by 2 in the year after that (that is, 2 years after the increase). Second, a law change after July, which is the beginning of the fiscal year for many States, would have more impact on receipts of the next calendar year than on those of the calendar year in which it occurs.

The effects of tax law changes that are excluded from receipts to derive the addenda items in the table cover the changes beginning with those introduced in 1992. The 12-month effects, recorded for calendar years as described above, are cumulated.

NIPA National income and product accounts

sonal contributions decelerated, primarily reflecting a deceleration in contributions for temporary disability insurance.

Federal grants-in-aid to State and local governments, which accounted for about 21 percent of total receipts, increased 2.7 percent, to \$224.2 billion, after increasing 3.0 percent in 1996. Most categories of grants increased, but grants for cash benefits (public assistance), education, and health care decreased.<sup>5</sup>

### Current expenditures

Current expenditures increased 4.8 percent, to \$982.6 billion, in 1997 (table 3). The increase was more than accounted for by increases in consumption expenditures and transfer payments to persons.

**Consumption expenditures.**—Consumption expenditures—which consist primarily of compensation of employees and net purchases of goods and services from businesses—increased 4.4 percent, to \$762.9 billion, in 1997 after increasing 4.6 percent in 1996. The deceleration primarily reflected decelerations in expenditures for durable goods other than equipment and in expenditures for nondurable goods. The deceleration in nondurable goods largely reflected a decrease in petroleum prices.

Compensation of general government employees, which accounted for about 75 percent of

consumption expenditures, increased 4.3 percent, to \$570.6 billion, in 1997 after increasing 4.1 percent in 1996 (table 4). State and local government employment increased 1.6 percent in 1997 after increasing 1.3 percent in 1996. The employment cost index for the wages and salaries of State and local government workers increased 2.7 percent in 1997, slightly less than in 1996.<sup>6</sup>

In the NIPA's, consumption expenditures are net of receipts for certain goods and services that are defined as government sales and that are subtracted in the estimation of consumption expenditures; the largest components of government sales are tuition charges and health and hospital charges. Government sales decelerated in 1997, reflecting decelerations in sales of nondurable goods and of services.<sup>7</sup>

Consumption of general government fixed capital, or depreciation, increased 4.2 percent in 1997, compared with a 4.4-percent increase in 1996.

Real consumption expenditures accelerated to a 2.0-percent increase in 1997 from a 1.2-percent increase in 1996 (table 4). Most of the acceleration was accounted for by compensation of general government employees, which increased 1.5 percent after increasing 0.4 percent, reflecting the acceleration in State and local government employment.

6. The employment cost index and the employment figures are reported in the U.S. Department of Labor, Bureau of Labor Statistics, *Employment Cost Index: Historical Listing* (January 1998); *Current Employment Statistics* (June 1997); and *The Employment Situation News Release* (March 6, 1998).

7. The detailed estimates of government sales are shown annually in NIPA table 3.9, most recently in the August 1997 SURVEY.

5. The detailed estimates of Federal grants-in-aid are shown annually in NIPA table 3.16, most recently in the October 1997 SURVEY. See also "Federal Budget Estimates, Fiscal Year 1999," SURVEY 78 (March 1998): 8-16.

Table 3.—State and Local Government Current Expenditures, NIPA Basis

	Calendar years								
	Billions of dollars					Percent change			
	1993	1994	1995	1996	1997	1994	1995	1996	1997
<b>Current expenditures</b> .....	<b>807.0</b>	<b>852.3</b>	<b>895.9</b>	<b>938.0</b>	<b>982.6</b>	<b>5.6</b>	<b>5.1</b>	<b>4.7</b>	<b>4.8</b>
Consumption expenditures .....	631.6	663.8	698.6	730.9	762.9	5.1	5.2	4.6	4.4
Transfer payments to persons .....	247.2	264.3	280.6	294.8	311.8	6.9	6.2	5.1	5.8
Benefits from social insurance funds .....	66.0	71.1	76.8	83.5	91.0	7.7	8.0	8.7	9.0
Medical care .....	132.5	141.7	151.3	159.9	171.0	6.9	6.8	5.7	6.9
Family assistance .....	24.0	24.3	23.3	21.7	18.8	1.3	-4.1	-6.9	-13.4
All other .....	24.6	27.2	29.2	29.7	31.1	10.6	7.4	1.7	4.7
Net interest paid .....	-52.4	-55.1	-59.6	-61.7	-65.2	.....	.....	.....	.....
Interest paid .....	64.5	63.7	64.1	64.6	64.6	-1.2	.6	.8	.0
Less: Interest received by government .....	116.9	118.8	123.7	126.3	129.8	1.6	4.1	2.1	2.8
Social insurance funds .....	59.9	61.4	64.3	67.1	69.7	2.5	4.7	4.4	3.9
Other .....	57.0	57.4	59.4	59.2	60.1	.7	3.4	-3	1.5
Less: Dividends received by government .....	10.5	11.4	12.5	13.6	14.6	8.6	9.6	8.8	7.4
Social insurance funds .....	10.3	11.2	12.3	13.4	14.4	8.7	9.8	8.9	7.5
Other .....	.2	.2	.2	.2	.2	0	0	0	0
Subsidies less current surplus of government enterprises .....	-9.0	-9.3	-11.2	-12.3	-12.2	.....	.....	.....	.....
Subsidies .....	.4	.4	.3	.3	.3	0	-25.0	0	0
Less: Current surplus of government enterprises .....	9.3	9.7	11.5	12.7	12.6	4.3	18.6	10.4	-8
Less: Wage accruals less disbursements .....	0	0	0	0	0	.....	.....	.....	.....

**Transfer payments to persons.**—Transfer payments to persons—which include medicaid, employee retirement benefits, and family assistance payments—increased 5.8 percent, to \$311.8 billion, in 1997 after increasing 5.1 percent in 1996 (table 3).

Benefits from social insurance funds increased 9.0 percent, to \$91.0 billion, in 1997 after an 8.7-percent increase in 1996. State and local employee retirement payments have continued to increase about 10 percent a year, workers' compensation payments increased 2.2 percent in 1997, and temporary disability insurance has declined since 1994. Medical care transfers (primarily medicaid), which accounted for about 55 percent of transfer payments, increased 6.9 percent, to \$171.0 billion, in 1997 after increasing 5.7 percent

ix 1996.<sup>8</sup> Family assistance, which has decreased since 1994, decreased 13.4 percent, to \$18.8 billion, in 1997.<sup>9</sup> All other transfer payments (including those for education and for employment and training) increased 4.7 percent, to \$31.1 billion, in 1997.

**Other current expenditures.**—Net interest paid (interest paid by State and local governments less interest received by them) has become more negative each year since 1993, because interest received has increased more than interest paid. In 1997, interest received increased 2.8 percent, and interest paid was unchanged. Interest received

8. The detailed estimates of government transfer payments to persons are shown annually in NIPA table 3.12, most recently in the August 1997 SURVEY.

9. Through 1995, family assistance consists of aid to families with dependent children; beginning in 1996, it also includes additional programs under the Personal Responsibility and Work Opportunity Reconciliation Act of 1996.

**Table 4.—State and Local Government Consumption Expenditures and Gross Investment, NIPA Basis**

	Calendar years									
	1993	1994	1995	1996	1997	1994	1995	1996	1997	
	Billions of dollars					Percent change				
<b>Consumption expenditures and gross investment</b> .....	<b>765.0</b>	<b>802.8</b>	<b>846.0</b>	<b>886.7</b>	<b>928.9</b>	<b>4.9</b>	<b>5.4</b>	<b>4.8</b>	<b>4.8</b>	<b>4.8</b>
Consumption expenditures .....	631.6	663.8	698.6	730.9	762.9	5.1	5.2	4.6	4.4	4.4
Durable goods .....	13.2	13.9	14.7	15.3	15.8	5.3	5.8	4.1	3.3	3.3
Nondurable goods .....	64.3	67.8	73.0	78.2	80.6	5.4	7.7	7.1	3.1	3.1
Services .....	554.2	582.1	610.9	637.5	666.5	5.0	4.9	4.4	4.5	4.5
Compensation of general government employees except force-account construction <sup>1</sup> .....	479.5	502.6	525.5	547.2	570.6	4.8	4.6	4.1	4.3	4.3
Consumption of general government fixed capital .....	48.8	51.3	54.2	56.6	59.0	5.1	5.7	4.4	4.2	4.2
Other services .....	25.9	28.1	31.2	33.7	36.9	8.5	11.0	8.0	9.5	9.5
Gross investment .....	133.4	138.9	147.4	155.7	166.0	4.1	6.1	5.6	6.6	6.6
Structures .....	108.7	113.4	121.0	128.5	138.4	4.3	6.7	6.2	7.7	7.7
Equipment .....	24.7	25.6	26.4	27.3	27.6	3.6	3.1	3.4	1.1	1.1
	Billions of chained (1992) dollars									
<b>Consumption expenditures and gross investment</b> .....	<b>746.4</b>	<b>765.7</b>	<b>781.6</b>	<b>793.7</b>	<b>812.7</b>	<b>2.6</b>	<b>2.1</b>	<b>1.5</b>	<b>2.4</b>	<b>2.4</b>
Consumption expenditures .....	615.8	633.4	646.0	653.6	666.6	2.9	2.0	1.2	2.0	2.0
Durable goods .....	13.0	13.6	13.9	14.4	14.8	4.6	2.2	3.6	2.8	2.8
Nondurable goods .....	64.0	67.4	69.2	71.5	74.1	5.3	2.7	3.3	3.6	3.6
Services .....	538.9	552.5	563.0	567.9	577.9	2.5	1.9	.9	1.8	1.8
Compensation of general government employees except force-account construction <sup>1</sup> .....	463.2	471.6	478.2	479.9	486.9	1.8	1.4	.4	1.5	1.5
Consumption of general government fixed capital .....	48.1	49.4	50.7	52.0	53.4	2.7	2.6	2.6	2.7	2.7
Other services .....	27.5	32.1	35.1	37.4	39.4	16.7	9.3	6.6	5.3	5.3
Gross investment .....	130.6	132.2	135.6	140.1	146.1	1.2	2.6	3.3	4.3	4.3
Structures .....	106.1	107.1	109.5	112.8	117.4	.9	2.2	3.0	4.1	4.1
Equipment .....	24.5	25.2	26.1	27.4	28.8	2.9	3.6	5.0	5.1	5.1
Residual .....	0	-7	-1.1	-1.7	-2.1	.....	.....	.....	.....	.....
	Index numbers, 1992=100									
<b>Addenda:<sup>2</sup></b>										
Consumption expenditures:										
Quantity index .....	102.03	104.94	107.02	108.28	110.44	2.9	2.0	1.2	2.0	2.0
Price index .....	102.56	104.80	108.14	111.84	114.44	2.2	3.2	3.4	2.3	2.3
Gross investment:										
Quantity index .....	98.81	100.06	102.60	106.03	110.52	1.3	2.5	3.3	4.2	4.2
Price index .....	102.17	105.06	108.69	111.14	113.71	2.8	3.5	2.3	2.3	2.3

1. Compensation of government employees engaged in new force-account construction and related expenditures for goods and services are classified as investment in structures.  
 2. Quantity and price indexes are chain-type indexes. The indexes are shown in NIPA table 7.11. For a discussion of the indexes, see "Preview of the Comprehensive Revision of the National Income and Product Accounts: BEA's New Featured Measures of Output and Prices," in the July 1995 SURVEY.

Real estimates are expressed in chained (1992) dollars, which are shown in NIPA table 3.8. Chained (1992) dollar series are calculated as the product of the chain-type quantity index and the 1992 current-dollar value of the corresponding series, divided by 100. Because the formula for the chain-type quantity indexes uses weights of more than one period, the corresponding chained-dollar estimates are usually not additive. The residual line is the difference between the first line and the sum of the most detailed lines.  
 NIPA National income and product accounts

NOTES.—The current-dollar estimates are shown in NIPA table 3.7.

by social insurance funds increased 3.9 percent; general government interest received increased 1.5 percent. Dividends received, primarily by State and local government pension funds, increased 7.4 percent after an increase of 8.8 percent.

The current surplus of government enterprises—certain government agencies that operate like businesses, such as water and sewerage facilities, public utilities, lotteries, and public transit—decreased slightly to \$12.6 billion in 1997 after 10 consecutive years of increases.<sup>10</sup> The downturn reflected a downturn in Federal subsidies paid to housing and urban renewal enterprises and to public transit enterprises; other enterprise revenues and current expenditures increased at about the same rate in 1997 as in 1996.

### Gross investment

Government expenditures for structures and equipment are now classified as “gross investment” (see footnote 1) and do not directly affect the NIPA current surplus (or deficit), but they remain an important activity of State and local governments. State and local government gross investment increased 6.6 percent, to \$166.0 billion, in 1997 after an increase of 5.6 percent in 1996 (table 4).<sup>11</sup>

Gross investment in structures increased 7.7 percent, to \$138.4 billion, in 1997 after increasing 6.2 percent in 1996. Investment in buildings accelerated, reflecting increases of 8 percent or more in all types of buildings. In structures other than buildings, the largest increases were in conservation and development and in “other” construction (which consists primarily of electric and gas facilities, transit systems, and airfields). Investment in highways and streets increased 7.7 percent, or \$3.4 billion, to \$47.5 billion. Construction of water systems increased 7.3 percent; construction of sewer systems increased 1.6 percent.

Gross investment in equipment increased 1.1 percent, to \$27.6 billion, in 1997 after a 3.4-percent increase in 1996. The deceleration largely reflected a continuing decline in computer prices.

In real terms, gross investment accelerated, primarily reflecting an acceleration in structures. Structures increased 4.1 percent after an increase of 3.0 percent. Real investment in equipment increased 5.1 percent after an increase of 5.0 percent.

10. The detailed estimates of current surplus of government enterprises are shown annually in NIPA table 3.13, most recently in the August 1997 SURVEY.

11. The detailed estimates of gross government investment by type are shown annually in NIPA tables 5.14 and 5.15, most recently in the August 1997 SURVEY.

The steady growth in real equipment investment contrasts with the deceleration in current-dollar equipment investment; the contrasting movements are partly the result of the continuing decline in computer prices.

### Fiscal position in 1998<sup>12</sup>

A major factor affecting the State and local fiscal position in 1998 will be the pace of overall economic activity during the year. In the *Economic Report of the President*, real gross domestic product in 1998 is projected to grow more slowly than in 1997, the unemployment rate is projected to be unchanged, and the rate of inflation is projected to step up slightly.<sup>13</sup>

*Receipts.*—In State and local government receipts, the growth of the economy will have the largest effect on personal income taxes, corporate profits tax accruals, and sales taxes, which together account for approximately two-fifths of total receipts. Federal grants-in-aid, which are determined by the Federal Government, account for approximately one-fifth of receipts.<sup>14</sup> Business and personal property taxes account for about one-fifth of total receipts, and other personal and business taxes and nontaxes and contributions for social insurance, which are influenced by such factors as State and local government employment and fiscal policies, and by changes in demographics, account for the remaining one-fifth.

Total receipts in 1998 are expected to increase \$50-\$55 billion, to \$1,140-\$1,145 billion. Personal tax and nontax receipts are likely to decelerate because of an expected deceleration in personal income taxes. The deceleration is partly attributable to the effect of the projected slowdown in economic growth; in addition, State tax law changes already enacted are expected to reduce personal income taxes more in 1998 than in 1997. Sales tax receipts are also expected to decelerate in 1998; tax law changes already enacted are expected to have little effect. Corporate tax accruals are unlikely to match the large increases

12. One of the reasons that BEA prepares these projections is that source data for a number of the components of State and local government receipts and expenditures are not available at the time NIPA estimates are made. For these components, estimates are made using indicator series or judgmental trends. These trends are used in conjunction with the available source data to prepare the current quarterly NIPA estimates. For more information, see “A Guide to the NIPAs,” SURVEY 78 (March 1998): 56–61.

13. *Economic Report of the President* (Washington, DC: U.S. Government Printing Office, February 1998).

14. Grants-in-aid have been appropriated for fiscal year 1998 and estimated for fiscal year 1999; they are shown in the 1999 *Budget Appendix of the United States* (Washington, DC: U.S. Government Printing Office, 1998) and in “Federal Budget Estimates, Fiscal Year 1999,” SURVEY 78 (March 1998): 8–16.

in 1996 and 1997. Property tax accruals, which are related to property values and to changes in investment as well as to the national economy, are expected to increase at about the same rate as in 1997. Reflecting all these changes, general own-source receipts are expected to increase less in 1998 than in 1997.

Federal grants-in-aid are expected to increase about 7 percent in 1998. This increase represents an acceleration after 2 years of deceleration. Almost all of the grants programs are expected to increase; the largest increases are expected in the programs for health care, community development, cash benefits (public assistance), and "all other."<sup>15</sup>

Contributions for social insurance are assumed to increase at about the same rate in 1998 as in 1997.

*Current expenditures.*—Evidence from State and local budgets suggests that expenditures for current operations will accelerate in 1998. Current expenditures are likely to increase \$50-\$55 billion, to \$1,033-\$1,038 billion. Consumption expenditures are likely to accelerate in 1998; the acceleration is expected to be widespread among the components of consumption expenditures.

Transfer payments, which are partly funded by Federal grants-in-aid, are likely to increase slightly more in 1998 than in 1997. Benefits from

social insurance are likely to increase at about the same rate.

Net interest paid in 1998 will be affected by the refinancing of debt and new borrowing at relatively low rates. Interest paid and interest received are likely to increase slowly again; dividends received is likely to increase at about the same rate as in 1997.

*Current surplus or deficit.*—These changes in receipts and in current expenditures would result in a NIPA surplus of \$107-\$112 billion in 1998. The social insurance funds surplus is expected to increase about \$1 billion, and the "other funds" surplus is likely to increase slightly.

*Gross investment.*—Gross investment is likely to increase in 1998. New borrowing by State and local governments, which is used to finance gross investment, increased in 1997. Most categories of structures are expected to increase in 1998, but at slower rates than in 1997. The largest increases are expected in educational and "other" buildings (including offices, police and fire stations, courthouses, and prisons). Water and sewer construction are also expected to remain relatively strong. Highway construction is expected to increase in 1998. Recently proposed Federal legislation on transportation increases the likelihood that it will accelerate: Presidential and congressional proposals currently under consideration, if enacted, would increase Federal funding for State and local government investment in transportation facilities, including highways. 

15. "All other" grants consists of a variety of programs; the largest programs are human development services, employment training, unemployment insurance trust fund administrative expenditures, disaster relief, justice assistance, and atomic energy defense activities.