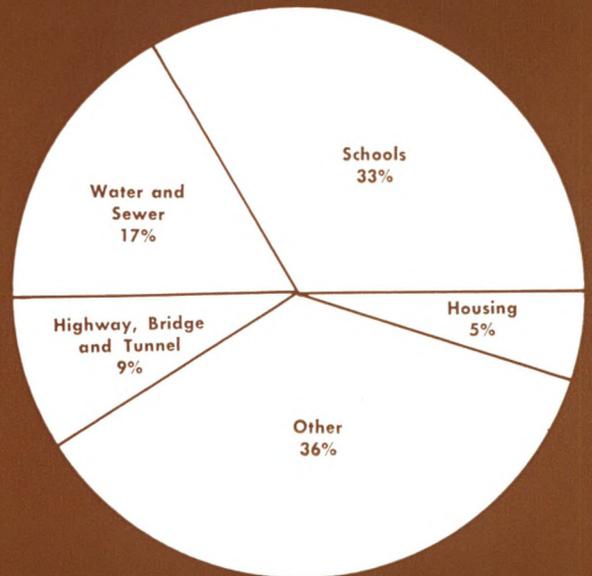


MONTHLY REVIEW



In 1965, state and local government bonds provided almost \$1 billion for the construction of highways, bridges and tunnels.

STATE AND LOCAL GOVERNMENT DEBT PART 1



Source: The Bond Buyer

In contrast to the Federal debt, which receives much publicity, the growth of state and local government debt has gone largely unnoticed by the general public. In mid-1965, state and local government debt outstanding totaled almost \$98 billion, having increased about 10% annually since 1950. While the Federal debt was over three times as large, totaling \$317 billion, it had grown only about 1.4% each year during this period. This article, the first of two dealing with state and local government financing, will concentrate on the general characteristics of borrowing by these governments, while the second will discuss marketing techniques.

The tremendous increase in the financial needs of state and local governments is one of the most striking features of our postwar economy. Their need for funds has derived from the rapid growth in population, the increased percentage of our population which is either old or young, the trend toward urbanization, and the rising level of prosperity. These changes have increased the need for schools, better roads, utilities, and water and sewer systems.

Such governmental functions as education, some types of welfare, roads, public health, police protection, hospitals, and sanitation have been primarily the responsibilities of state and local governments. To finance the large volume of capital expenditures needed for these functions, states and localities, for several reasons, traditionally have resorted to borrowing by selling securities. First, many projects are too expensive to be financed out of current revenue receipts; some projects may cost more than a locality's total annual operating budget. Even for

wealthy state or local governments, financing expensive construction might entail a prohibitive increase in taxes. Secondly, the life of a capital asset is long, and many people will benefit from it who do not at present live in the community. In view of today's highly mobile population, it seems inequitable that the total burden of financing a public improvement should fall on those people who happen to live in the area at the time the improvement is made.

Generally, about one half to three fourths of all state and local government capital expenditures are financed by borrowing, and about 90% of all new long-term debt is for capital construction. The distribution of the \$11.1 billion borrowed by state and local governments in 1965 is shown in the pie chart. The largest category, "other," includes such items as dormitories, stadiums, and community swimming pools. About 95% of the total debt outstanding is long-term because the bonds are usually, although sometimes very loosely, tied to the life of the capital asset they are financing, or to an estimate of the revenue to be derived from it. Borrowing is also used to provide veterans' bonuses and benefits, and, on rare occasions, to finance current operating expenditures on a short-term basis.

Dimensions Total state and local debt outstanding has increased from about \$2 billion at the turn of the century to almost \$98 billion in 1965. Of the \$98 billion, state debt accounted for 27% and the rest was owed by the various types of local governments, such as cities, counties, townships, school districts and special districts. In this century, growth

in total state and local debt has been interrupted only twice, during the 1930's and the second World War. With the conclusion of the War, states and localities increased their borrowing very rapidly. From 1946 to 1964, state debt grew at a rate of 14.3% per year, and local governments, 9.3%. Among the principal types of local governments, city debt increased 7.6% annually; school districts, 19%; and special districts, 9.7%.

Tax Exempt Feature The most distinctive feature of state and local government bonds is the exemption of their interest from all Federal income taxes. (Many bonds are also exempt from state income taxes in the state of issue.) The Federal exemption is both constitutional and statutory, and is based on the doctrine of "reciprocal immunity." This doctrine grew out of the United States Supreme Court's ruling in *McCullough v. Maryland* (1819), in which Chief Justice Marshall said "the power to tax involves the power to destroy." In accordance with this doctrine, state governments may not tax income earned on instrumentalities of the Federal Government, and vice versa. In 1895 the Supreme Court ruled specifically, for the first time, that a Federal income tax could not apply to the interest on state and municipal bonds. Since the ratification of the Sixteenth Amendment in 1913, which permitted the establishment of a Federal income tax, each income tax law has exempted such interest from Federal taxation. Over the years, the tax immunity has been extended to political subdivisions of states and other public agencies, including interstate authorities.

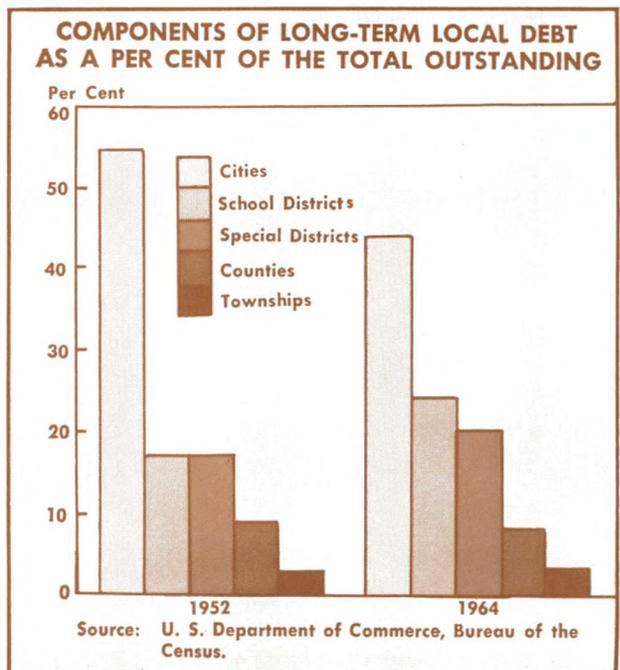
The tax exempt feature became increasingly attractive during World War II when the Federal Government ceased to issue its own tax exempt securities, and Federal income tax rates were raised sharply. The rising level of prosperity and increasing number of people in the upper income brackets have further enhanced the investment appeal of state and local bonds since interest received from them is virtually the only form of income which is not subject to Federal income taxation. Although the tax exempt feature has been attacked repeatedly by finance experts and Treasury officials, attempts to abolish it by the Treasury have failed due to strong opposition by states and localities, dealers, and underwriters.

Types of Tax Exempt Bonds The principal question with most state and local governments today is not whether to borrow, but *how* to borrow. For a number of years, state and local governments relied primarily on the issuance of general obligation bonds; that is, bonds which were backed by the full faith and credit of the issuing government, and all

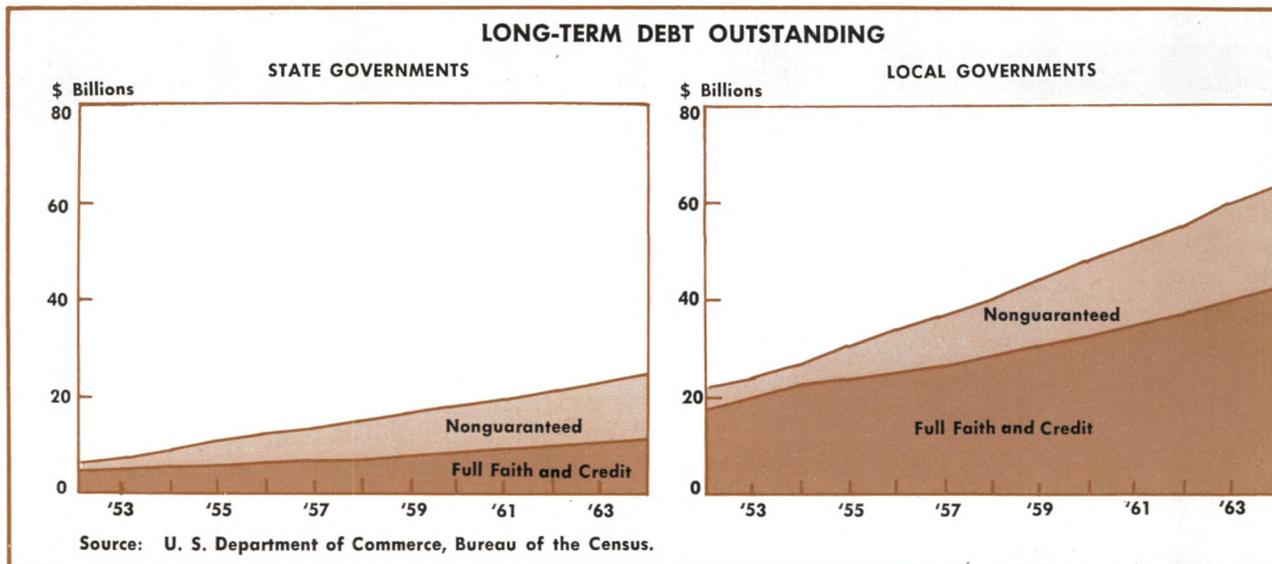
the taxing powers and revenue raising devices of that government stood behind them. The existence of a multitude of restrictions on state and local government borrowing through general obligations has resulted in the creation of a variety of borrowing techniques which circumvent the restrictions, and which have altered substantially the character and composition of tax exempt debt in the past two decades. In 1952, about 82% of total long-term state and local debt issues were general obligations, but by 1964 the proportion had fallen to about 60%.

The type of debt which has increased so rapidly is the "nonguaranteed" bond, dependent, in theory, for interest and principal payments on revenue produced by an income-earning asset or enterprise, but, in practice, often dependent on earmarked taxes, pledged public charges and rents, or grants from the general revenue pool. Because nonguaranteed, or "revenue" bonds, as they are commonly called, do not carry an unconditional promise to pay, as do all general obligations, they have been held by the courts not to be general obligations in the constitutional sense, and hence not subject to state constitutional limitations.

History of Debt Restrictions In the 1820's and most of the 1830's the country was generally prosperous and many states borrowed money to finance internal improvements such as canals, highways, and railways. Many of the improvements were unprofitable and, as a result of the depression of 1837, nine states defaulted, and four eventually repudiated



LONG-TERM DEBT OUTSTANDING



their debt. Although most states later resumed interest payments, many state constitutions framed at that time included restrictions on borrowing. The Civil War brought a new wave of borrowing, and while northern states were able to retire most of their debt with Federal help, the South was burdened by the financial mismanagement of reconstruction governments. The South's Civil War debt was declared null and void by the Fourteenth Amendment, and post-reconstruction governments subsequently repudiated or scaled down most of the reconstruction debt. Due to bitter experience and conservative philosophy, voters in many states endorsed severe constitutional and statutory limitations during the last two decades of the nineteenth century.

As state borrowing dwindled following the war, localities assumed the task of financing capital improvements and borrowed extensively, particularly for railroads. By 1873, however, many localities found themselves unable to service their debt and defaults became widespread, amounting to about 20% of the debt outstanding in 1880. At this time states imposed restrictions on local borrowing, usually in the form of a debt-property value ratio. Although the accelerated borrowing of the 1920's was followed by defaults in the early 1930's, amounting to about 10% of all local bonds, there was no fresh wave of limitations and restrictions. Instead, steps were taken in many areas toward state supervision or control of the finances of defaulting local units.

Types of Debt Restrictions The types of state limitations on their own borrowing fall into three categories. First, are those with constitutions which prohibit any borrowing except by amendment. This

group numbers 21 states. Second, and also including 21 states, are those which may not borrow without a legislative act and approval in a referendum. Third, and including only 8 states, are those in which there are no constitutional limitations on borrowing. As for state constitutional or statutory limitations on local borrowing, the most common is a ceiling on the debt expressed as a per cent of the local property tax base; in 1961 this restriction was included in 34 state constitutions. Although many students of municipal finance regard the debt-property ratio as the most workable formula yet devised, it has many serious drawbacks. For instance, the limits apply to the assessed value of property, and can therefore be altered simply by altering the assessment. Also, assessments often vary widely within a state. The debt-carrying capacity of local governments is not necessarily measured accurately by the property value alone because localities use additional sources of revenue and where one community may depend very heavily on property taxes, another may derive significant revenues from other sources. Finally, localities are tempted to expand their legal borrowing power by creating special governmental districts which may share the same property base, thus piling districts and debts on top of each other.

Aside from the debt-property ratio, restrictions on local debt are varied and numerous. In 1961, referendum requirements appeared in 23 constitutions; another 27 states had statutory referendum requirements. Other types of regulation include limits on the term for which local governments may borrow, maximum interest rates which may be paid, specifications for the type of obligations to be used, and the conditions for issuance.

Methods of Circumventing Debt Limitations

Where state and local governments have been unsuccessful in obtaining legislative modification or constitutional changes of limitations on general obligation bonds, they have most commonly resorted to the nonguaranteed bond. Nonguaranteed bonds were originally used sparingly, and then only to finance self-supporting enterprises such as public utilities and toll facilities. During the Depression, however, the Public Works Administration greatly expanded their use to stimulate state and local construction without interference by debt restrictions. The number of states using them jumped from 15 in 1931 to 40 in 1936; nonguaranteed debt is now used in all states.

The types of financing via nonguaranteed bonds have developed piecemeal, according to whether they received sanctions or rebuffs from the courts. There are currently three broad categories of nonguaranteed borrowing methods: (1) bonds of state agencies or localities serviced by means of special funds; (2) special districts and public authorities, corporations, and commissions; and (3) lease-purchase agreements. The first method is self-explanatory—certain public receipts, such as earmarked taxes, are set aside to service bonds in order to avoid classifying the bonds as general obligations.

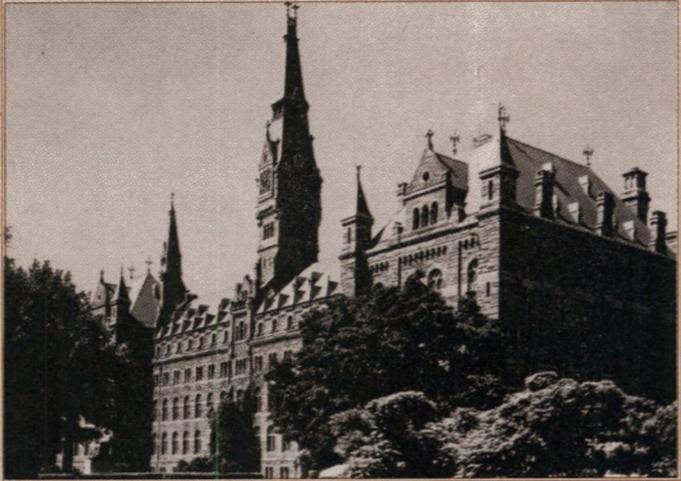
A special district is a governmental unit typically devoted to one or two functions such as education or water and sewer facilities. The unit usually operates in a fairly small area, and may have its own taxing and borrowing powers. Special districts are a convenient way of avoiding jurisdictional problems which arise when cities spread into counties, or towns grow into each other. Although school districts are the most numerous type of special district, they are usually considered in a separate category because their use is so widespread and because their entire debt is full faith and credit. In contrast, 82% of the total debt of all other special districts in 1964 was nonguaranteed—the highest percentage of any type of local government. During the past decade there has been a trend toward the creation of authorities, where possible, instead of special districts. Authorities have borrowing power, but usually no taxing powers, and are established for most of the same reasons as special districts.

A method which is frequently used by state and local governments to expedite capital construction is lease-financing. This involves, first, a state law permitting the formation of a public, nonprofit corporation or authority which is empowered to issue revenue bonds. With the proceeds from the bonds, the corporation builds the facility which is then

leased to the state government or political subdivision. The bonds are serviced and retired out of lease payments made by the leasing governmental unit. Some provision is usually made for the purchase of the facility by the lessee when the lease expires. Although the lease payments depend on the general revenues of the leasing unit, most state courts have held that neither the payments nor the bonds violate debt limitations. School construction is often accomplished in this manner, as well as highways, hospitals, parks, and athletic fields.

Perhaps the most controversial use of lease-financing is for industrial aid. About 28 states have authorized the issuance of revenue bonds to acquire land, buildings, and equipment which, in turn, are leased to a private firm. The rental paid by the firm is supposed to cover the servicing of the debt. The purpose of this type of financing is to attract industry and thereby bolster the area's economic well-being. Objections to industrial aid bonds include the following: (1) the tax exempt feature is exploited for private purposes; (2) firms receiving aid may derive cost advantages over other competing firms; and (3) firms may be induced to shift to a new location where market factors may be otherwise unfavorable.

Disadvantages of Nonguaranteed Debt One of the strongest arguments for the revision or abolition of limitations on state and local debt is the increasing use of nonguaranteed debt. First, nonguaranteed borrowing involves higher interest costs because the lender supposedly assumes a greater risk than if the full revenue-raising powers of the government were pledged to secure the bond. In cases where the state or local government *intends* to assume the burden of nonguaranteed debt, but where it is unable to declare publicly this intention because of constitutional restrictions, the higher cost is payment for a fictitious risk and represents an unnecessary cost to the taxpayer. Nonguaranteed borrowing also involves more litigation than guaranteed borrowing, due to the need to convince the courts that the debt is not subject to constitutional or statutory limits. This is also costly to the taxpayer. Another criticism of the present use of nonguaranteed obligations is that they are used increasingly and extensively for projects which produce little or no revenue of their own. Although these governments are not liable for this debt, a modest volume of defaults could impair all state and local credit. In sum, it appears that constitutional and statutory restrictions have not succeeded in restraining borrowing, but have simply altered its character.



Georgetown University is the oldest Catholic institution of higher learning in the United States. It was founded in 1789, the same year in which George Washington was inaugurated President. Georgetown was the first American college to receive a University Charter from the Federal Government. This Charter was granted in 1815. The University's Healy Tower is a feature of the Washington skyline.

Old Georgetown in the District of Columbia is an outstanding example of the charm of the past embodied in thriving residential area. Between 1890 and 1920, as Washington expanded, many historic structures were demolished. Many families, however, maintained fine residences there and by the 1920's new families began to restore old houses. Instead of becoming a section of restored buildings open for public inspection, it has attracted new residents whose names make headlines in the news today.

In 1751 Georgetown was officially chartered as a "towne" by the Maryland Assembly. It became a great trade market and carried on a lively commerce with the West Indies and England, rivaling the ports of Philadelphia and New York. In 1871 Georgetown's charter was revoked by Congress, thus ending its self-government and making it an integral part of the city of Washington.



The Old Stone House on M Street is one of the oldest buildings in Washington surviving in its original condition. It is an historically important representative of colonial Georgetown and was saved from demolition in 1950 by an Act of Congress.



Dumbarton Oaks, built in 1800, once was occupied by John C. Calhoun. In 1940 the extensively altered estate was presented to Harvard University as a center for Byzantine and early Christian studies. The Dumbarton Oaks Conference, a step in the organization of the United Nations, was held here in 1944.

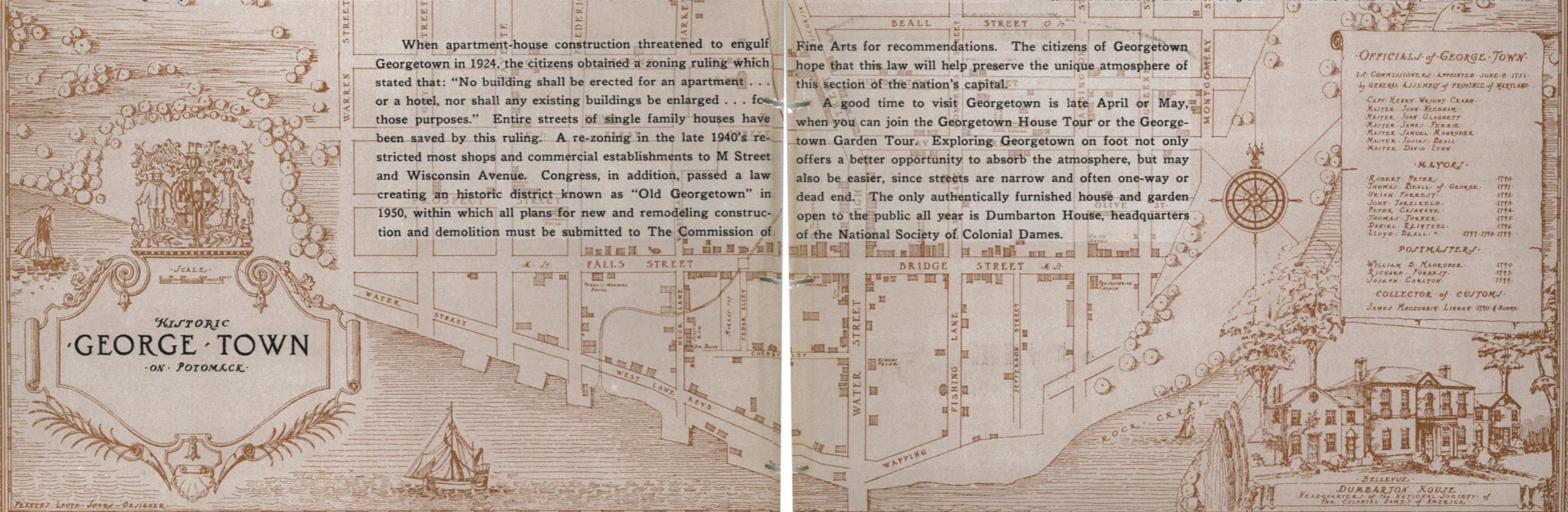
When apartment-house construction threatened to engulf Georgetown in 1924, the citizens obtained a zoning ruling which stated that: "No building shall be erected for an apartment . . . or a hotel, nor shall any existing buildings be enlarged . . . for those purposes." Entire streets of single family houses have been saved by this ruling. A re-zoning in the late 1940's restricted most shops and commercial establishments to M Street and Wisconsin Avenue. Congress, in addition, passed a law creating an historic district known as "Old Georgetown" in 1950, within which all plans for new and remodeling construction and demolition must be submitted to The Commission of

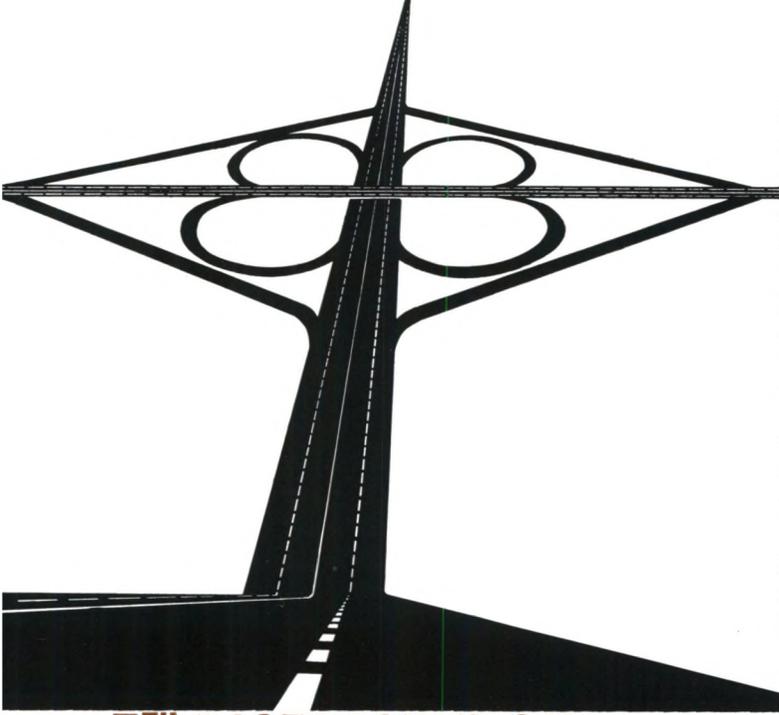
Fine Arts for recommendations. The citizens of Georgetown hope that this law will help preserve the unique atmosphere of this section of the nation's capital. A good time to visit Georgetown is late April or May, when you can join the Georgetown House Tour or the Georgetown Garden Tour. Exploring Georgetown on foot not only offers a better opportunity to absorb the atmosphere, but may also be easier, since streets are narrow and often one-way or dead end. The only authentically furnished house and garden open to the public all year is Dumbarton House, headquarters of the National Society of Colonial Dames.

OFFICIALS OF GEORGETOWN

- 1st. COMMISSIONERS, APPOINTED JUNE 8, 1751, BY GENERAL ASSEMBLY OF PROVINCE OF MARYLAND
- CLIFF HENRY WEIGHT CLARK
 - MAJESTY JOHN NEEDHAM
 - MAJESTY JOHN GLAGGETT
 - MAJESTY JAMES PERKINS
 - MAJESTY SAMUEL MARRIOTT
 - MAJESTY THOMAS BEALL
 - MAJESTY DAVID LYNN
- MAYORS**
- ROBERT PETER 1770
 - THOMAS BEALL OF GEORGE 1771
 - URBAN FOREST 1772
 - JOHN THRELKELD 1773
 - PETER CAJAYNE 1774
 - THOMAS TURNER 1775
 - DANIEL REYNOLDS 1776
 - LLOYD BEALL 1777-1778-1779
- POSTMASTERS**
- WILLIAM B. MARRIOTT 1770
 - RICHARD FOREST 1771
 - JOSEPH CARLTON 1772
- COLLECTOR OF CUSTOMS**
- JAMES MACCUBBIN LINCOLN 1770-1771

HISTORIC GEORGETOWN
ON POTOMACK





5TH DISTRICT HIGHWAYS

A traveler today can easily drive the 180 miles from Washington, D. C., to the North Carolina State Line in three and one-half hours. Dual-lane divided highway is available for the entire distance across the state of Virginia. It is possible, therefore, to maintain a steady and reasonably high rate of speed and, normally, to avoid serious traffic congestion. It is not necessary to drive through the streets of any city along the way. There are four toll booths on the turnpike between Richmond and Petersburg, but there are no stop lights. Ten years ago, before the Richmond-Petersburg Turnpike and Virginia's part of Interstate Route 95 were completed, the same trip was less pleasant and often took as much as one and one-half hours longer, due in large measure to the necessity of driving into and through the cities of Fredericksburg, Richmond, and Petersburg.

The foregoing, of course, is just one example of the benefit from expansion and improvement of the highway system in Fifth District states in recent years. Numerous others can be cited. People in all parts of the District have gained from better roads. The vacationing North Carolina family finds it easier to reach beach and mountain resort areas. The salesman in Maryland finds it takes less time to go from customer to customer. Improved truck delivery service has enabled merchants throughout the District to obtain additional stock faster.

Roads and the Economy Better roads have been an important stimulus to the growth of manufacturing

in the Fifth District. They have made it possible for manufacturing firms to attract workers from wider geographical areas, to obtain materials more easily, and to deliver finished products sooner. In the past several years, numerous firms have been willing to establish plants in predominantly rural sections of the District because there were no longer serious transportation problems connected with these locations.

Producers of farm products also have benefited. The typical farmer enjoys an expanded range of marketing alternatives, because he now can move tobacco, cotton, grain, and other crops over long distances promptly and conveniently.

Improved roads have been a spur to competition in the retail trade sector. Most residents of small towns in the District now have the option of shopping in several other communities without having to drive

TOTAL SURFACED ROAD AND STREET MILEAGE
In the Fifth District—1950 and 1964

| | Mileage | | Increase |
|-----------------------|----------------|----------------|---------------|
| | 1950 | 1964 | 1950-1964 |
| District of Columbia | 987 | 1,231 | 244 |
| Maryland | 15,326 | 23,045 | 7,719 |
| North Carolina | 43,428 | 72,973 | 29,545 |
| South Carolina | 18,486 | 35,023 | 16,537 |
| Virginia | 46,900 | 57,158 | 10,258 |
| West Virginia | 18,754 | 24,184 | 5,430 |
| Fifth District | 143,881 | 213,614 | 69,733 |

Source: U. S. Department of Commerce, Bureau of Public Roads.

more than an hour or two. In a number of the urban areas, beltways have made it reasonably convenient for shoppers to pursue bargains to the other side of the city. Thus, merchants in both small towns and cities have found that they are competing with more rivals over a wider geographical area. The end results of increased competition of this type normally are lower prices and wider selections of products for consumers.

One of the most significant long-run effects has been upon the quality of primary and secondary education in rural areas. As dirt roads have been paved, it has been possible to consolidate rural schools. Consolidation has meant greatly improved physical facilities, has made it feasible for the schools to hire teachers for specialized subjects, and in general, has facilitated an up-grading in the quality of education.

The Measure and Cost of Progress The five Fifth District states and the District of Columbia

collectively added about 70,000 miles of surfaced roads to the existing road network between 1950 and 1964. This was an increase of almost 50%. As may be seen in the table on page 8, North Carolina led the District in number of miles of surfaced road completed during that period. In percentage terms, however, progress was greatest in South Carolina where surfaced mileage almost doubled.

Concurrent with the gain in number of surfaced miles, there has been improvement in the quality of the roads. More mileage is surfaced with better grade materials; most roads are wider and generally conform to higher engineering standards. Many inter-sections of major roads have been redesigned to handle larger traffic volumes and access to most of the heavily traveled roads is now closely controlled.

Probably the most readily evident qualitative progress has been the increase in mileage of multi-lane (four lanes or more) highways. As recently as 1956, there were only about 1,900 miles of multi-lane road in the District. In 1964, the total was 4,100. Among the five states, North Carolina added the largest number of new miles.

Building a better road system has called for con-

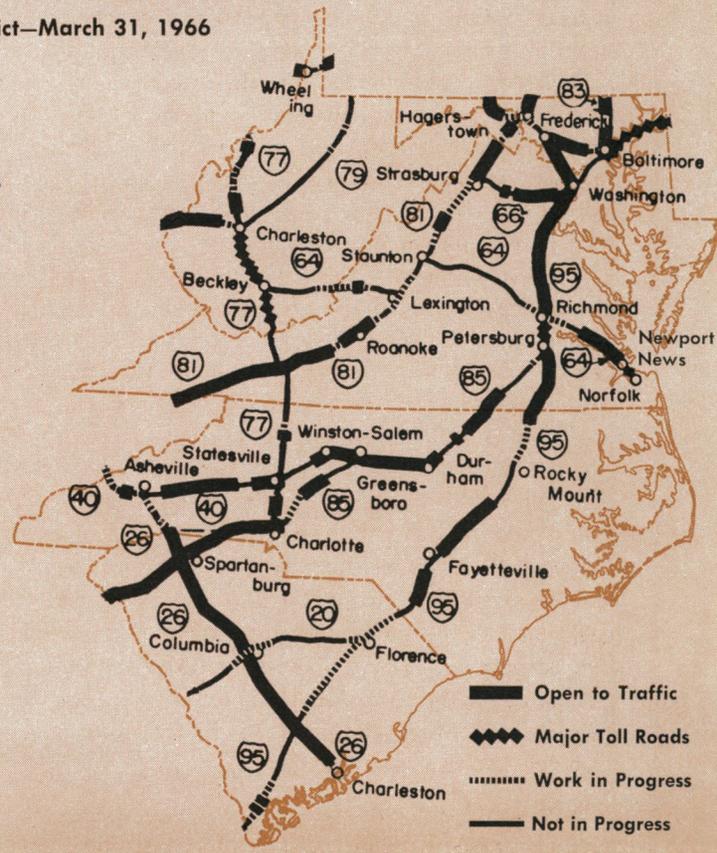
tinuing high level expenditures. Between 1956 and 1963 alone, Federal, state, and local government spending for the construction of new highways in the Fifth District amounted to over \$4 billion. The eight-year outlay was largest in Virginia, totaling \$1.2 billion. For the rest of the District the figures were: Maryland, \$939 million; North Carolina, \$841 million; South Carolina, \$453 million; West Virginia, \$432 million; and Washington, D. C., \$216 million. An up-grading of maintenance standards, also a part of the development program, has called for increased annual spending for maintenance in each of the five states.

Cost of construction and maintenance have risen steadily in recent years. Average figures for the entire District show the cost of building one mile of new highway rising from \$81,000 in 1956 to \$354,000 in 1963. Similarly, maintenance cost per mile of road in existence rose from \$666 to \$872. The unusually rapid increase in construction costs per mile has been due to higher prices of materials and equipment, rising labor costs, and higher construction standards necessitated by growing traffic volumes.

Most of the revenue for highway needs has come

THE INTERSTATE AND DEFENSE HIGHWAY SYSTEM In The Fifth District—March 31, 1966

| | Total Designated | Open to Traffic | Work in Progress | Not Yet in Progress |
|-----------------------|------------------|-----------------|------------------|---------------------|
| | (miles) | | | |
| District of Columbia | 29.8 | 10.3 | 5.4 | 14.1 |
| Maryland | 354.2 | 251.4 | 83.6 | 19.2 |
| North Carolina | 770.3 | 391.6 | 359.5 | 19.2 |
| South Carolina | 681.0 | 346.2 | 334.8 | |
| Virginia | 1,059.1 | 504.6 | 531.8 | 22.7 |
| West Virginia | 517.7 | 186.7 | 149.9 | 181.1 |
| Fifth District | 3,412.1 | 1,690.8 | 1,465.0 | 256.3 |



Source: U. S. Department of Commerce, Bureau of Public Roads.

from taxes on users. Receipts from user taxes collected by Federal, state, and local governments in the five states and D. C. have more than doubled in the past decade and have become a larger part of total highway revenues. In 1963, they amounted to \$814 million, or 81% of total receipts, compared with \$393 million or 67% in 1956.

The amount appropriated from general funds also has risen substantially. The dollar total almost doubled between 1956 and 1963. As a fraction of total highway revenues, however, such funds have remained of relatively minor importance. Nor have any of the states depended heavily upon debt financing. For the District, bond proceeds in 1963 were only \$48 million or about 5% of the total.

The Interstate System One of the most promising developments in U. S. highway transportation since the end of World War II has been the beginning of the National System of Interstate and Defense Highways. Although the system was authorized by the Federal-Aid Highway Act of 1944, there was no substantial appropriation of Federal funds for construction until 1956. Thus, the large-scale building program has been going on for about 10 years. In the entire country, approximately 21,450 miles of interstate highway are now open to traffic. When the system is completed in the early 1970's, a total of 41,000 miles of highest quality road will connect the nation's major urban and manufacturing centers.

All of the mileage making up the interstate system is multi-lane, divided roadway, conforming to top design standards. Perhaps the major advantage of highways of this quality is reduction of accident risk. Federal officials have estimated that, nationwide, the completed system will bring about an annual saving of 8,000 lives that would otherwise have been lost.

The Fifth District's share of the completed interstate network will be a little more than 3,400 miles. As may be seen in the table at the bottom of page 9, about half of the designated mileage is now open. Maryland is well ahead of the District average in total mileage completed, while the District of Columbia and West Virginia lag somewhat behind. Construction of road meeting interstate standards is particularly difficult and expensive in West Virginia because of the mountainous terrain. One short stretch to be constructed in the northern part of the state is expected to cost about \$3 million per mile.

As is evident from the map on page 9, a number of the District's urban areas are already linked by the new highways. Interstate roads now connect Charleston and Spartanburg in South Carolina, Winston-Salem, Greensboro, and Durham in North Carolina,

Charleston and Beckley in West Virginia, and Baltimore, Maryland and Wilmington, Delaware.

Highway Use The builders of the District's highways have been spurred in their efforts by ever-growing traffic volumes. Between 1950 and 1964, the total number of private automobiles registered in the five state area increased from 3.1 million to over 5.8 million. Based on national averages for number of miles driven annually per car, it may be estimated that the number of vehicle miles driven annually by Fifth District car owners rose from 28 billion to 56 billion.

Use of highways for the transport of goods also has risen rapidly. In the nation as a whole, ton-miles of freight hauled between cities by motor carriers more than doubled in the 1950-1964 period, and the fraction of all freight hauled which was hauled by truck rose from 16% to 24%. Data for the Interstate Commerce Commission's Middle Atlantic and Southern regions suggest that the comparable figures for District states rose at least as much as these national averages.

One might expect that so much expansion of traffic volumes would have created an increasingly serious accident problem. But such has not been the case. Whereas the number of vehicle miles traveled annually in the District approximately doubled between 1950 and 1964, the number of deaths resulting from motor vehicle accidents rose only one sixth. This record is quite impressive in view of the appreciable rise in the speed capabilities of most automobiles in the past five years or so. Better road design apparently has been a major factor contributing to driving safety.

The Outlook The next decade should bring substantial further progress in developing the District's transportation network. There will be heavy spending for roads. Many additional miles of multi-lane highway already are scheduled. Probably, a large amount of money will go for highway beautification, in line with the Johnson Administration's current proposals. At some point, however, it seems logical to expect that the patterns of expenditure in the several states must shift from concentration on the building of more roads to the development of better systems of public mass transit. If the average annual rate of increase in number of cars which has prevailed over the past ten years continues until 1975, there will be close to 10 million cars in the District. This would mean a serious congestion problem especially in the large urban areas. The solution would seem to be provision of acceptable alternative modes of transportation to complement better roads.

THE FIFTH DISTRICT



The automobile influences nearly every facet of modern living. Production, distribution, and use of motor vehicles generate large flows of income in all parts of the country and contribute substantially to the success of many different enterprises. Personal expenditures suggest the magnitude of these income flows. In 1964, consumers across the country spent \$21.7 billion on new cars, \$14.0 billion on gasoline and oil, \$5.6 billion for services such as maintenance, repairs, and parking, \$3.4 billion for interest on automobile debt, \$3.0 billion for tires, accessories, and parts, \$2.1 billion for insurance, and \$0.4 billion for tolls. These outlays, totaling \$50.2 billion, represented one eighth of all personal expenditures, and more billions were spent on highways, showrooms, shops, service stations, and other related facilities.

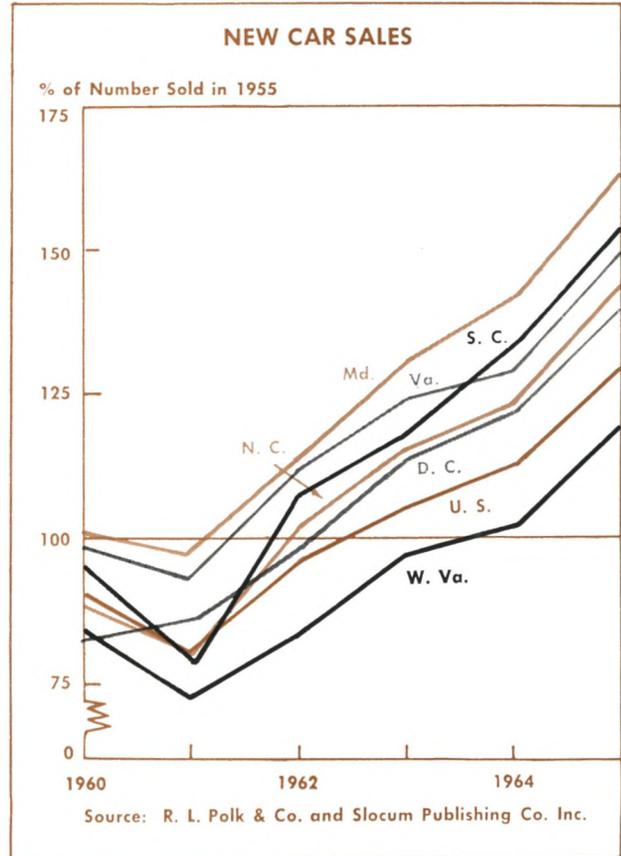
Statistical Comparisons Passenger cars in use in the Fifth District on July 1 last year numbered 5,629,300, about 8% of the national total. The distribution within the District showed 1.5 million in North Carolina, 1.3 million in Virginia, 1.1 million in Maryland, 0.8 million in South Carolina, 0.6 million in West Virginia, and 0.3 million in the District of Columbia. Relative to population there were fewer cars in the Fifth District than in the rest of the nation. The ratio of residents to passenger cars was 3.2 in the District compared to 2.8 nationally and ranged within the District from 2.7 in the District of Columbia to 3.4 in Virginia.

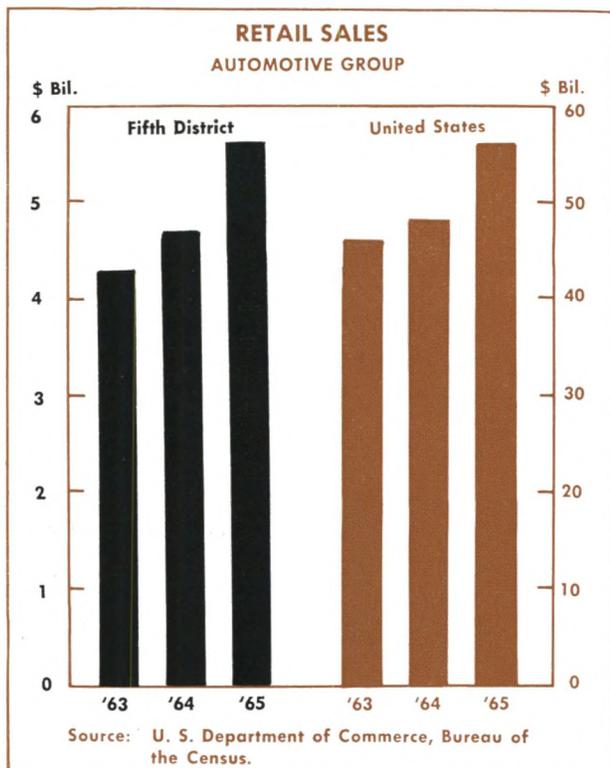
Comparisons with other nations show that in mid-1965 there were more cars in the Fifth District than in all of Canada, more than in South America and Africa combined, more than half again as many as in all the countries of Asia including Japan. Only three European countries, the United Kingdom, West Germany, and France, had more passenger cars than the Fifth District, and Russia had less than one million, about 11% more than South Carolina.

Comparisons among regions that differ widely in social, political, economic, and geographical characteristics need a good deal of help from other sources to support any extensive conclusions. They do, however, provide a general commentary on differences in population mobility. For comparison with the

Fifth District's 3.2 ratio of population to passenger cars, the figure was 3.7 in Canada, 6.0 in France, 6.4 in the United Kingdom, and 6.8 in West Germany. The lowest European rate for a major country was 4.6 in Sweden. The lowest ratios outside of North America were 3.8 in New Zealand and 4.2 in Australia. Russia had 300 persons per passenger car. Ratios in Asian countries ranged from 7.4 in oil-rich Kuwait, 32.2 in Israel, and 57.3 in Japan to nearly 2,340 in Korea.

Compared to the United States most countries give more emphasis to buses and trucks. In the United States and the Fifth District in mid-1965, passenger cars represented about 83% of all vehicles in operation. In Canada and the United Kingdom, the ratio was only slightly lower. In West Germany, however, it was considerably larger, 91%. Elsewhere in





the world, ratios of passenger cars to total vehicles were 70% in Africa, 60% in South America, 40% in Asia, and 21% in the Soviet Union.

New Cars Set Records New cars sold in the Fifth District in 1965 numbered 792,000, about 14% of the total in operation at mid-year. Prior to the current buying spree, the record year against which all others were measured was 1955, when District sales topped 536,000. The 1955 figure was exceeded in the Fifth District in 1962 but not until 1963 in the nation as a whole. District sales last year were up 48% from the 1955 level, and the District's share of national sales rose during the ten-year period from 7.5% to 8.5%. Particularly large increases occurred in 1962, 1963, and in 1965 when gains ranged from 14% in Maryland to 18% in West Virginia. Relative growth between 1955 and 1965 ranged from 19% in West Virginia to 63% in Maryland. Three states accounted for nearly three fourths of the new cars sold in the District last year: Virginia with 201,000, Maryland with 193,000, and North Carolina with 191,000. To compare recent growth with the old records set in 1955, the chart on page 11 shows annual sales from 1960 to 1965 in the nation and subdivisions of the Fifth District expressed as percentages of the 1955 volume. The national rate of growth was exceeded during this period in all District states except West Virginia.

Importance in Retail Sales Automotive sales, which include used cars and accessories as well as new cars, exceeded \$5.6 billion in the Fifth District in 1965 and accounted for nearly one fourth of all retail sales. Automotive sales nationally totaled over \$56 billion, about one fifth of total retail volume. The chart opposite compares District and national growth in automotive retail sales during the past three years. The unusual size of last year's gains, a little over 12% in the District and a little below that figure in the nation, is clearly apparent. The Fifth District accounted for 10% of national automotive sales compared to 8.5% of new car sales due largely to the District's relatively bigger used car business.

Other Factors Nearly one fourth of all state tax revenues are linked to the use of motor vehicles. In the Fifth District the fraction has recently been slightly more than one fourth with motor vehicle fuel taxes in 1965 contributing \$411 million, vehicle licenses \$144 million, and vehicle operators' licenses \$11 million toward total state tax revenues of about \$2.2 billion. Among the five states, the proportions of total tax revenues linked to the use of motor vehicles were 33% in Virginia, 23% in West Virginia, 24% in each of the Carolinas, and 21% in Maryland.

Among the District states only Maryland and Virginia produce automobiles. Last year's figures show over 206,000 units assembled in Maryland and nearly 85,000 built in Virginia. The District total was little more than 3% of the national output but made a significant contribution to local income flows.

The number of franchised dealers in the District declined from over 3,500 in 1955 to less than 3,000 in 1960, to about 2,750 early this year. Competition has resulted in fewer outlets covering larger areas and handling more models and styles. Although the actual number of dealers declined, the District's share of the national total rose during the period from 7.9% to 8.3%.

Note: Data cited in this article include the counties of West Virginia's northern panhandle, part of the Fourth Federal Reserve District. The charts and several other references are based on data compiled by R. L. Polk & Co., and further use is prohibited without Polk permission.

PHOTO CREDITS

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