

Looking at Long-Term Debt in 1963

(It's a lot like looking at debt in 2026)

Outstanding long-term debt of state and local governments in the United States was approximately \$80.1 billion on June 30, 1962 (roughly \$867 billion in current dollars), up from \$25.5 billion a decade earlier. [That number is approximately \$4.9 trillion today.] The growth of debt is linked to population growth, industry, and publicly owned facilities financed through debt issues. “In the realm of public finance, sophisticated public officialdom keeps a watchful eye on the investment money market and its various facets since heavy sums will be required to finance additional public facilities of all types in the coming years,” according to the February 1964 issue of *GFR* (then titled *Governmental Finance*).

This issue addressed “the specter of a loss of the tax-exempt status of municipal securities, through one approach or another, and the cost of such loss to the states and their local governments and their taxpayers, and how the loss could be offset in some measure, if it could be.” Then, as now, “states and municipalities have been the greatest objectors to changes in the status quo and are now in the forefront of the fight to retain the exemption of their securities from federal income taxes.” Following extensive analysis, one article concluded that “permissive

reciprocal taxation of federal securities is no inducement to the states to give up voluntarily the intergovernmental tax immunity of their securities.”

Another article examined three major influences on state and local borrowing and concludes—after an extremely thorough analysis—that the perceived risk involved in municipal bond investments “appears to be over-estimated partially because such issues of the 1960s are still being associated with the defaults of the 1930s.” The author argued for decreasing the use of revenue bonds, less reliance on property tax factors in evaluating debt capacity, and a more formalized approach to determining bond ratings. Among the article’s conclusions: 1) The proposition that indirect is generally as desirable as direct borrowing should be discarded, given the very low incidence of municipal defaults; 2) Property tax measures should still be emphasized strongly in judging the quality of all general obligations, and broader comparisons of debt-bearing ability should be used and stressed; and 3) Bond ratings were effective measures of the odds against loss.

And finally, an almost astonishingly detailed article explored the subject of internal control. “All public finance officers should recognize that it is just as important to provide adequate control of the public investment in physical property as the investment



in plant and equipment is controlled in the private enterprise sector.” The author suggested new concepts of internal control, explaining that they would present government officials with a challenge and a promise of handsome rewards.

Five recommendations on internal control: 1) Replace 100 percent pre-audit with selective post-audit, using modern probability sampling methods in which the cost of a sampling is balanced against possible loss; 2) Replace detail line budgeting by program budgeting, and supplement appropriation controls with cost controls on a full accrual basis; 3) Replace physical property accounting by economic controls designed to achieve optimum maintenance and replacement policies; 4) Replace conflicting departmental reports with a uniform report examined by independent certified public accountants; and 5) Replace financial officers selected on the basis of purely political consideration with men professionally qualified to implement a modern system of internal control. [In the 1960s, GFOA’s membership was predominantly male. Today, however, governments are statistically more likely to recruit a professionally qualified woman.]

For the most modern take, see GFOA’s best practices for debt:

gfoa.org/best-practices