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Reply

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Reply

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PROFESSORS OSTROSKY AND RENAS raise two important points regarding our paper.[1] As regards their first point, we concede that our assumption that per capita expenditures will grow by the maximum permitted under Proposition 4 is arbitrary. How "unrealistic" this assumption is (would be) is obviously unknown. Nevertheless, we viewed the assumption under debate as necessary to the undertaking of our exploratory analysis of the effects of Proposition 4 since it provided the analysis with a parameter—and a reasonably plausible one at that!

The second issue raised by Ostrosky and Renas concerns our use of the services price index (SPI) to measure the cost of living. Ostrosky and Renas argue that this is a "fundamental error"—one so basic that it ". . . is *not* even debatable." They point out that the living cost measure found in Proposition 4 is in fact the consumer price index (CPI). Hence, they argue that our computations are incorrect in each and every case. They also argue that the ". . . error is intensified all the more by the fact that the SPI has risen far more rapidly than the CPI in recent years."

Ostrosky and Renas are correct in that the CPI should have been used rather than the SPI. However, they are incorrect in stating that the SPI has risen far more rapidly than the CPI. In point of fact, over the period 1970–1976, the SPI rose by 48.115 percent whereas the CPI rose by 46.615

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p.c. There is little difference between these two inflation rates—only 1.5 percentage points over six years! Going further, although theoretically we should have used the CPI rather than the SPI, it makes little substantive difference either way insofar as the final results are concerned. Refer to our Table 1. In row A of the Table, the mean of the *actual* per capita expenditures is given as $1284.49. In row B of the Table, the mean of the *theoretical* per capita expenditures is given as $1086.37. The latter figure was derived using the methodology adopted in our original paper[2] *but* using the inflation rate of the CPI rather than that of the SPI. Given the size of the standard deviations in rows A and B, it is patently clear that the basic conclusions derived in our paper also are reached here when using the CPI to measure living costs. Thus, although Ostrosky and Renas are technically correct regarding the use of the

Table 1

MEANS AND STANDARD DEVIATIONS

All 50 States Plus District of Columbia

		Means	Standard Deviations
(A)	Actual Per Capita Expenditures	$1284.49	$373.09
(B)	Theoretical Per Capita Expenditures	1086.37	320.75
(C)	Difference (A) - (B)	198.12	52.34

CPI to measure living costs in this instance, the conclusions of our initial analysis are precisely the same, namely: ". . . the existence of Proposition 4 would *not* have resulted in a statistically significant reduction in per capita state plus local government spending . . . Proposition 4 would *not* have led to a statistically significant reduction in tax levels per capita."[3]

Notes

1. Richard J. Cebula and Linda Chevlin, "Proposition 4, Tax Reduction Mirage: An Exploratory Note on Its Potential Spending and Tax Impacts," *American Journal of Economics and Sociology*, Vol. 40, No. 4 (October, 1981), pp. 343–48.

2. *Ibid*, p. 348.

3. EDITOR'S NOTE: Both I and one of the referees, also an economic statistician, recommended to Cebula and Chevlin that they use the Services Price Index rather than the Consumer Price Index to approximate the inflation rate. If any blame attaches for this "error," we accept it. But

we do not find the argument of Ostrosky and Renas compelling. The SPI is a poor measure of price inflation, it is true, but for municipalities—the opinions of the California Legislature notwithstanding—it is the best we have. And if we want to know how inflation affects government expenditures, we must use it. Not a measure like the CPI, which is based on an outdated construct of the experience with prices of a "typical" city worker family. When a legislature gives its blessing to a statistic like the CPI, its action must indeed be taken into account. But not as a parameter of the price experience of a single mass consumer like a municipality.—W.L.