Limiting Government Growth is the Key to Prosperity

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By Dick Clark

It is not very hard to find consensus, in principle, on whether or not wasteful government spending ought to be sought out and eliminated. When spending is ineffective or counterproductive at achieving the stated policy objective, most folks from across the political spectrum would agree that change is needed. Government boondoggles large and small often earn disapproving headlines.

When a wasteful project comes to light, the outside perspective of a news writer can draw needed attention to a hemorrhage of taxpayer resources, as illustrated by examples like the recent *Lincoln Journal-Star* coverage of the "Havoc in Havelock," where spending on rehabilitation of an historic building has ballooned, while neighboring businesses lose customers and are left with the eyesore of the plastic-draped scaffolding of a seemingly never-ending construction zone. After some five years of headaches and expended tax dollars, the City of Lincoln has recently proposed demolition of the problem structure.[1]

Public officials do not set out with the purpose of squandering resources, and those who do commit the most egregious waste are often drummed out of office in favor of more responsible public stewards. Nebraska has long recognized that balancing the books is an essential part of responsible government. The state's constitutional restraint on public indebtedness helps to ensure there is a close relationship between public spending and public revenues, and to avoid spending tax dollars on interest.

Even constitutionally permissible borrowing is often rejected by lawmakers, as seen in the recent defeat of a highway bonding bill on final reading in the Nebraska Legislature.[2] "Pay as you go" financing of public projects seems to be the Nebraska way, and that is one reason why Nebraska government has not faced the challenges seen in states whose spending is not as restrained by revenue. In fact, in 2011 Nebraska had the lowest per capita public indebtedness of any state nationwide.[3]

The real disagreement comes when folks cannot come to consensus on whether the object of a particular government expenditure is worthwhile. While balanced budgets are necessary to avoid the potentially crippling costs of debt, there is still the question of how much government spending is optimal and how much is too much. A recent article by Daniel Mitchell in the *Wall Street Journal* explores the relationship between government spending and economic prosperity.[4] He argues that discussions of taxing versus borrowing are incomplete, and the key to ensuring prosperity is growing government spending at a slower rate than the economy. This is what he calls the "golden rule of fiscal policy."

To support this proposed rule, Mitchell points at data from the International Monetary Fund (IMF) showing countries that have most successfully reined in spending growth have seen budget surpluses and banner economic growth. Between 1992 and 1997, Canada kept its public spending growth to 0.8 percent annually. Combined with the overall growth of the economy, this meant government spending as a percentage of gross domestic product (GDP) actually shrank by 9.4 percent, making for substantial surpluses in government budgets.

Sweden, though often cited as a free-spending social democratic state, similarly kept its public spending in check from late 1992 to 2001. Tough fiscal restraints were enacted in response to the 1992 recession in Sweden. Keeping spending growth to 1.9 percent annually,[5] this kick started economic growth and resulted in public budget surpluses. Because of the resulting economic boom, government spending declined by 15 percent of GDP.[6]

Mitchell relates similar success stories from Switzerland, Germany, Latvia, Ireland, Slovakia, Singapore, Italy, Lithuania, Taiwan, Israel, Estonia, Iceland, and the Netherlands. Each country kept public spending expansion below the overall growth of its economy, and each country saw above-average economic growth as a result.[7]

Nebraska has done relatively well in avoiding new public spending as compared to other states, with government spending here growing 17 percent between 2001 and 2011, the fourth lowest nationally.[8] Nebraska still has much to do to become a more competitive tax environment[9] for attracting entrepreneurs, jobs, and workers. In the meantime, placing careful limits on the share of the state's resources flowing into government is a Nebraska tradition that lawmakers should resolve to keep.

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[1] Salter, Peter. "Havoc in Havelock: Historic building swallowing money, patience." *Lincoln Journal-Star*. April 14, 2014. [URL: http://journalstar.com/news/local/havoc-in-havelock-historic-building-swallowing-money-patience/article_4bf68809-a718-55fb-a35a-dbd073ada91f.html]

[2] Young, JoAnne. "Legislature rejects roads bonding bill." *Lincoln Journal-Star*. April 10, 2014. [URL: http://journalstar.com/legislature/legislature-rejects-roads-bonding-bill/article_644fbdeb-fef6-5091-b34e-6c1d0aec05b5.html]

[3] Scott, Dylan. "Combined State Debt: More Than $4 Trillion for FY 2011." *Governing*. October 25, 2011. [URL: http://www.governing.com/news/state/Combined-State-Debt-More-Than-4-Trillion-For-FY-2011.html]

[4] Mitchell, Daniel J. "A Golden Rule Nurtures Prosperity." *The Wall Street Journal.* April 6, 2014. [URL: http://online.wsj.com/news/articles/SB10001424052702303978304579473710524940746]

[5] Karlsson, Stefan. "The Sweden Myth." *Mises Daily*. Ludwig von Mises Institute. August 7, 2006. [URL: http://mises.org/daily/2259]

[6] Mitchell.

[7] *Ibid*.

[8] Borean, Richard. "Growth in State Government Spending, 2001–2011." Tax Foundation. July 22, 2013. [URL: http://taxfoundation.org/blog/monday-map-growth-state-government-spending-2001-2011]

[9] Drenkard, Scott. "Tax Reform Bill Moving in Nebraska Legislature." *Platte Chat*. Platte Institute for Economic Research. February 19, 2014. [URL: http://www.platteinstitute.org/research/detail/tax-reform-bill-moving-in-nebraska-legislature]