



Coming Up Short in the Rankings: Why Nebraska Should Care

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Nebraska is a great place to live, and most Nebraskans know it. Nebraska residents enjoy a low cost of living, low unemployment, and a family-friendly heartland culture. In 2012, Gallup-Healthways announced that Lincoln beat out 188 other metropolitan areas for first place in a comparison of communities, an achievement based on important quality of life categories such as clean air and water, positive work environment, good health, and public safety.^[1] Nebraska ranked seventh nationally on the state-level well-being index in 2012, and in 2013 the state moved up to third place.^[2]

Unfortunately, the state's economic prognosis is not as cheery as these recent quality of life measures. On April 15th, the American Legislative Exchange Council (ALEC) released its 2014 edition of *Rich States, Poor States*, an annual survey designed to measure both the recent economic performance and the economic outlook of each state.^[3] While Nebraska's twentieth-place ranking means that its recent economic performance is slightly better than the national average, the state's economic outlook regrettably remains anchored firmly in the bottom third at number thirty-five.

ALEC's economic performance ranking is calculated by examining three measures of recent economic growth: state gross domestic product (GDP), absolute domestic migration, and non-farm payroll employment. Nebraska's GDP has grown every year in the past decade, but after clocking faster-than-average GDP growth from 2007 to 2011, Nebraska's annual GDP growth fell below 4 percent in 2012, dipping slightly under the national numbers. Non-farm payroll employment continued to modestly grow in Nebraska. However, Nebraska lost ground on migration, with absolute domestic migration still in negative territory. With only one year (2010) of net positive migration in the last decade, Nebraska's out-migration numbers kept it out of the top third of states in the economic performance rankings.

Nebraska's challenging economic outlook stems chiefly from Nebraska's unfavorable tax regime. Nebraska's high personal and corporate income tax rates—6.84 percent and 7.81 percent respectively—place Nebraska behind thirty other states with lower income tax rates. Nebraska's property tax burden as a percentage of personal income is similarly uncompetitive, with property tax extracting more than \$37 from taxpayers for every \$1000 of personal income earned. The

sales tax takes another \$22 of every \$1000 earned, only slightly lower than the national average. Additionally, Nebraska continues to impose a steep inheritance tax. Driving public spending, the number of government employees per capita in Nebraska is among the highest in the nation, with 652 government employees for every 10,000 state residents—more than all but three other states nationwide.

Although Nebraska is unquestionably a wonderful place to put down roots, several of Nebraska's regional neighbors offer more economic promise, and they do so while maintaining a high standard of living at low cost. Wyoming and North Dakota are both top ten economic performers on ALEC's 2014 survey, and South Dakota, North Dakota, and Wyoming all find themselves in the top ten in terms of economic prognosis. In fact, every single state that shares a border with Nebraska offers residents a better economic outlook, while providing similarly high-quality, low-cost lifestyles. While Nebraska has the eighth-lowest cost of living nationally, Iowa, Missouri, North Dakota, and South Dakota lifestyles all cost even less.^[4]

If Nebraskans want to be more competitive nationally and in the region, the surest way forward is to reduce the tax burden. This will unquestionably make Nebraska more attractive to investors and entrepreneurs.^[5] It will also make Nebraska more attractive to the young people who grow up here and all too often move away. Enhancing economic opportunity in Nebraska by reducing the tax burden will address the key economic challenge that ALEC identifies for the Cornhusker state: retaining and growing the state's population.^[6] Nebraska ought to be on the short list for every entrepreneur, every worker, and every retiree who is looking for greener pastures. With serious tax reform, it could be.

[1] Olberding, Matt. "Lincoln is the Happiest Place in the U.S." *Lincoln Journal-Star*. March 5, 2013. [URL: http://journalstar.com/news/local/lincoln-is-the-happiest-place-in-the-us/article_33db256b-16d0-50ce-99ec-fbe7fc048ff6.html]

[2] "State of Nebraska Well-Being: 2013 State, Community, and Congressional District Analysis." Gallup-Healthways Well-Being Index. 2013. [URL: <http://info.healthways.com/wbi2013>]

[3] Laffer, Arthur B., Stephen Moore, and Jonathan Williams. *Rich States, Poor States*. Seventh Edition. American Legislative Exchange Council. 2014. [URL: <http://www.alec.org/publications/rich-states-poor-states/>]

[4] Based on analysis using Bureau of Economic Analysis regional price parity metrics. See Tate, Curtis. "The Eight Least Expensive States to Live in the US." Wall St. Cheat Sheet. June 28, 2013. [URL: <http://wallstcheatsheet.com/stocks/the-8-least-expensive-states-to-live-in-the-us.html/?a=viewall>]

[5] Henchman, Joseph and Scott Drenkard. "Building on Success: A Guide to Fair, Simple, Pro-Growth Tax Reform for Nebraska." Tax Foundation and Platte Institute for Economic Research. October 2013. [URL:]

http://www.platteinstitute.org/Library/docLib/20131002_Building_on_Success_Final_Low_Res.pdf

[6] “State Taxation and Migration.” *Platte Chat*. Platte Institute for Economic Research. January 15, 2014. [URL: <http://www.platteinstitute.org/research/detail/state-taxation-and-migration>]