



State and Local Spending Versus Economic Growth

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By Dick Clark

When Nebraska became a state in 1867, an ounce of gold was twenty dollars and a pound of butter cost twenty cents. There were not very many people here, with the 1870 census counting 122,993 inhabitants in Nebraska out of 38.5 million people living in the United States at that time. Companies like the Burlington and Missouri River Railroad were trying to change that, staging advertising campaigns to inform potential settlers about fertile land that could be cheaply financed and paid off with the produce that could be readily extracted from it. Government was not very visible in Nebraska in 1867 and the years that followed, despite significant spending projects in those early years of statehood that included the construction of two ill-fated capitol buildings in Lincoln.[\[1\]](#) With these objects of government spending so clearly tied to corruption and graft,[\[2\]](#) it is hard to imagine that those early Nebraskans were terribly upset at the lack of government intervention in their daily lives.

In 2014, government is visible throughout Nebraska, and taxpayers are paying quite a bit for it. In Fiscal Year 2013, state spending broke the \$10 billion mark for the first time.[\[3\]](#) That is approximately 9.27 percent of the gross domestic product (GDP) of Nebraska, which was \$109.6 billion in 2013. Since 2000, state spending has held roughly steady as a percentage of GDP, with an average of just over 10 percent of the state's economic productivity going to Lincoln during that time.[\[4\]](#) Nominally, though, state spending has increased by nearly 67 percent since 2000. Since 2000, annual state spending has ballooned by approximately \$2 billion, even after adjusting for inflation. That means that despite the relative restraint exercised by lawmakers during the budget process, state government in Nebraska has grown in real terms by about 20 percent in the last fourteen years.[\[5\]](#)

Local spending is more difficult to tally, but in recent years spending by local government entities in Nebraska has consumed another 11 percent to 14 percent of the GDP. In 2010, local spending was 13.24 percent of GDP. That year, the only states with proportionally higher local government spending than Nebraska were New York, Florida, and California.[\[6\]](#)

Once federal government spending is factored in, an estimated 41.6 percent of national GDP is consumed at some level of government in the United States, for a total of almost \$6.5 trillion dollars in 2012.[7]

Though there are clearly more services being rendered by government entities than in the nineteenth century, running a business has not gotten easier. With more dollars flowing into government, fewer dollars remain in the hands of consumers, entrepreneurs, and investors. This means that fewer resources remain available for savings and investment while more resources are allocated based on political and bureaucratic incentives. Because government central planners cannot aggregate and analyze all of the varied and dynamic information that is available to individual actors in the marketplace,[8] fewer resources are put to their best and most productive uses. This malinvestment ultimately slows the growth of wages and correspondingly dampens the upward progress of everyone's standard of living.

At the state level, Nebraska has in recent years been fairly responsible in restraining government growth. However, the destructive state income tax structure and very high local spending mean that Nebraskans lose many opportunities to grow new businesses. Real reductions in state spending would present an opportunity for meaningful income tax relief.

At the local level, where spending is higher than almost any other state in the whole country, more effective use of education money will be essential to reducing the tax burden. As state mandates on local governments are reviewed over the legislative interim,[9] lawmakers should take a hard look at the mandated expenses dependent on local revenue sources like property tax, inheritance tax, and local sales tax. Nebraska is still a land of economic opportunity, but the undue burden of government in the state makes that opportunity harder to find.

[1] "History of Nebraska's Capitols." Office of the Capitol Commission. State of Nebraska. [URL: <http://capitol.org/building/history/nebraska-capitols>]

[2] Daniel C. Butler, the first governor of the State of Nebraska, was heavily involved in the public process that moved Nebraska's capital from Omaha to Lincoln. Butler was subsequently accused of using state education money to make personal purchases of real estate in Lincoln, and he was impeached and removed from office in 1871. *See* "Governor Butler: Biographical Note." Nebraska Historical Society. 2005. [URL: http://www.nebraskahistory.org/lib-arch/research/public/state_governors/butler.pdf]

[3] "Historical Expenditures." NebraskaSpending.gov. State Treasurer. State of Nebraska. [URL: <http://nebraskaspending.gov/history/index.php>]

[4] For Nebraska GDP figures, see "Nebraska Gross Domestic Product." Nebraska Department of Economic Development. State of Nebraska, [URL: <http://www.neded.org/files/research/stathand/dsect9.htm>]

[5] Inflation-adjusted figures based on Bureau of Labor Statistics CPI Calculator.

[6] “Comparison of State and Local Government Spending in the United States, Fiscal Year 2010.” Spending by state. USGovernmentSpending.com [URL: http://www.usgovernmentspending.com/compare_state_spending_2010pFOL]

[7] See “Total Government Expenditure, United States.” Government Expenditure by Function. *StatExtracts*. Organisation for Economic Cooperation and Development. [URL: http://stats.oecd.org/Index.aspx?DataSetCode=SNA_TABLE11]

[8] Hayek, F.A. “The Use of Knowledge in Society.” *American Economic Review*. Vol. 35, no. 4. September 1945. [URL: <http://www.econlib.org/library/Essays/hykKnw1.html>]

[9] See, e.g., “Interim study to examine the fiscal impacts of unfunded mandates.” Legislative Resolution 544. Appropriations Committee. Nebraska Legislature. 2014. [URL: http://nebraskalegislature.gov/bills/view_bill.php?DocumentID=23612] and “Interim study to review the work of the Task Force on Unfunded Mandates created in 1996 and to study the impacts of unfunded and underfunded mandates on counties and county governments.” Legislative Resolution 582. Government, Military, and Veterans Affairs Committee. Nebraska Legislature. 2014. [URL: http://nebraskalegislature.gov/bills/view_bill.php?DocumentID=23652]