Is Nebraska a Rich State or a Poor State?

The American Legislative Exchange Council recently released its annual economic competitiveness index of the fifty states called *Rich States, Poor States*; and unfortunately, Nebraska appears to be trending "Poor," mostly due to our tax structure.

The study examines each state based upon 15 policy variables affected directly by state legislators, including the burden and progressivity of various taxes, number of public employees, right to work, and the minimum wage, among other factors.[1] In addition to ranking states according to these variables, the index looks at each state's performance in gross domestic product, absolute domestic migration, and non-farm payroll employment, in order to rank economic performance over time. Similarly, the index considers each state's rankings in the 15 policy areas to construct an economic outlook rank.[2]

For the 2013 index-which uses a scale of 1-50, 50 being the worst-Nebraska dropped both in economic performance and economic outlook. On economic performance, the Cornhusker State went from 20th to 21st. Between 2001 and 2011 Nebraska's gross domestic product showed a cumulative growth of 57.8 percent, but only a 3.5 percent cumulative growth in non-farm employment over the same period, and actually had negative domestic migration from 2002 to 2011, losing appro ximately 32,456 people.[3]

While the economic performance rank only dropped slightly, the economic outlook rank took more of a nosedive, dropping from 31 to 37, the lowest ranking Nebraska has ever had. Previously, Nebraska's lowest ranking was 34, reached in 2008 and 2010; 2009 saw the state's highest ranking at 29th. This fall is likely due to Nebraska dropping at least one rank in nearly all 15 policy categories.[4] Of particular interest are the ranks of Nebraska's various taxes:

- Nebraska's income taxes, personal and corporate, were ranked at 30th and 29th, respectively.
- Personal income tax's progressivity ranking as the 44th worst in the nation.
- Sales tax burden was ranked 23rd.
- Property tax burden was ranked 34th.

The largest rank drop was in the remaining tax burden. In 2012, Nebraska's other taxes aside from income, property, and sales were ranked 16th in the nation; in 2013, this rank dropped to 29th. Other measurements that brought down Nebraska's rank were the continued levying of an inheritance tax-which only six other states still have[5]-and the fact that Nebraska has 656.2 public employees for every 10,000 residents, 46th in the country.[6] However, it should be noted that the public employee count is at least partially due to Nebraska having public utilities.

The study provides some regional evidence that, when compared with neighboring states, Nebraska's economic outlook is less than competitive. Of all the states, Utah was first with North Dakota in second, and rounding out the top four were two of Nebraska's neighbors: South Dakota and Wyoming. Our other neighbors also outranked us; Kansas came in at 11, Colorado at 16, Missouri at 23, and Iowa at 25.[7] It is worth noting that all of these states-with the exception of Iowa-have lower income taxes than Nebraska (South Dakota and Wyoming have no income taxes); and except for Iowa and Kansas, these states have lower sales taxes as well.[8]

The study also provided insight on the 11 states that adopted an income tax in the past 60 years, including Nebraska, and how the introduction of the income tax impacted economic performance. While the study did not provide Nebraska-specific numbers, it indicated that for the 5 years before the introduction of the income tax, the 11 states produced 33 percent of the nation's total GDP, contained 31 percent of the total U.S. population, and generated 27.8 percent of the total U.S. state tax revenue. When those same 11 states were evaluated on these measurements in 2011, their share of the national GDP had decreased by 10.5 percent to 22.5 percent, total share of the population had decreased by 7.9 percent to 23.1 percent, and their share of the total state tax revenue decreased 3.2 percent to be only 24.6 percent. In essence, these 11 states were better off economically without an income tax.[9]

While Nebraska is not quite a "poor state," it cannot be called a "rich state" either. If Nebraska wishes to reverse these negative trends of lower economic and population growth, it must begin implementing competitive tax policies to attract businesses and individuals, and lowering high taxes would be a good place to start.

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[1] Arthur Laffer, Stephen Moore, and Jonathan Williams, *Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index*, 6th ed. American Legislative Exchange Council (Arlington, Virginia, 2013), *Nebraska*. Accessed June 5, 2013,http://www.alec.org/wp-content/uploads/Nebraska.pdf.

[2] Ibid.

[3] Ibid.

[4] Ibid; Arthur Laffer, Stephen Moore, and Jonathan Williams, *Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index*, 5th ed. American Legislative Exchange Council (Arlington, Virginia, 2012), *Nebraska*. Accessed June 5, 2013, http://www.alec.org/docs/RSPS_5th_Edition.pdf.

[5] Julie Garber, "States With an Estate or Inheritance Tax in 2013." Accessed June 5, 2013, http://wills.about.com/od/stateestatetaxes/qt/2013-state-estate-tax-inheritance-tax.htm.

[6] Arthur Laffer, Stephen Moore, and Jonathan Williams, *Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index*, 6th ed. American Legislative Exchange Council (Arlington, Virginia, 2013), *Nebraska*. Accessed June 5, 2013,http://www.alec.org/wp-content/uploads/Nebraska.pdf.

[7] Arthur Laffer, Stephen Moore, and Jonathan Williams, *Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index*, 6th ed. American Legislative Exchange Council (Arlington, Virginia, 2013). Accessed June 5, 2013,http://alec.org/docs/RSPS-6th-Edition.

[8] Tax rates for these states comes from the Tax Foundation:
Wyoming-- http://taxfoundation.org/state-tax-climate/wyoming

South Dakota-- http://taxfoundation.org/state-tax-climate/south-dakota

Missouri-- http://taxfoundation.org/state-tax-climate/missouri

Kansas-- http://taxfoundation.org/state-tax-climate/kansas

Colorado-- http://taxfoundation.org/state-tax-climate/colorado

Iowa-- http://taxfoundation.org/state-tax-climate/iowa

Nebraska-- http://taxfoundation.org/state-tax-climate/nebraska

[9] Arthur Laffer, Stephen Moore, and Jonathan Williams, *Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index*, 6th ed. American Legislative

Exchange Council (Arlington, Virginia, 2013). Accessed June 5, 2013,http://alec.org/docs/RSPS-6th-Edition.