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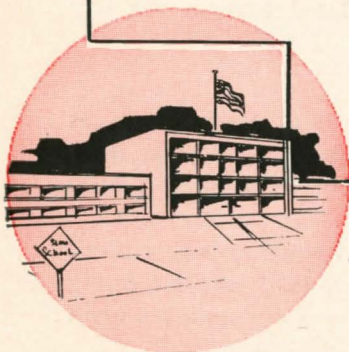
EC 62-817A

LET'S DISCUSS:

NEBRASKA TAXES

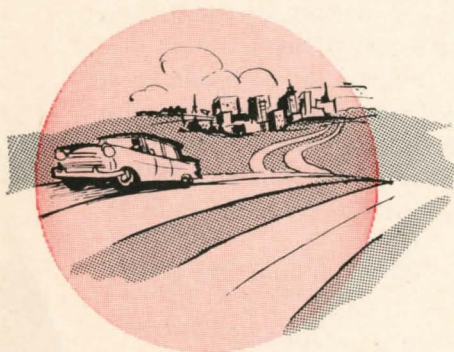
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THE ROLE OF GOVERNMENT IN OUR SOCIETY



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Foreword

Nebraska citizens as individuals, as members of organizations, as business managers, as legislators, and as administrators of public institutions and agencies are concerned with important state and local public finance problems.

These problems are: demands for more and better public services; the numbers and types of local governmental units; the increasing costs of state and local government; and the continued reliance upon the property tax for revenue.

Many individuals and groups who recognize these problems have asked for additional information on the possibilities and limitations of alternative courses of action for solving these problems.

The objective of this series of four circulars on state and local public finance in Nebraska is to provide the citizens of the state with factual information on the expenditure and revenue systems of the state and local governments, on basic principles of public finance, and on the advantages and disadvantages of alternative methods of obtaining revenue for public purposes.

The following circulars are included in the series under the general heading *Let's Discuss Nebraska Taxes*:

- | | |
|-----------------|-------------------------------------|
| EC 62-817A I. | Role of Government in Our Society |
| EC 62-817B II. | Public Services: Cost and Financing |
| EC 62-817C III. | Basic Principles of Public Finance |
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Let's Discuss:

NEBRASKA TAXES

I. The Role of Government in Our Society

**By Everett E. Peterson, Agricultural Economist,
Jack D. Timmons, Graduate Assistant, Political Science**

Introduction

The main purpose of our political economy is to solve the problem of allocating scarce resources among competing economic and social goals so as to attain those goals as fully as possible. Economic goals include efficient use of resources and economic growth. Social or public policy goals include economic, political and social freedom; justice or equity; and the best levels of living.

Five basic decisions must be made:

1. What is to be produced and in what quantities.
2. How to share resources among public and private activities to get the most possible satisfactions.
3. How, in the short run, to ration relatively fixed supplies of resources and products.
4. How to distribute products among members of society—that is, decide whose wants are to be satisfied and to what extent.
5. How to maintain and expand the economic system.

In making these basic decisions we organize our activities through the family, the market and government. The household economy predominates in underdeveloped countries. It is still important in industrial societies, especially in consumption, but has a minor role in production and distribution. Agriculture is the only major industry in our economy where production is primarily a family enterprise.

The market mechanism uses the self-regulatory process of supply and demand, operating through the interaction of millions of individuals as consumers and producers. Output is largely determined by profit expectations; demand by income derived from production. Most of the economic activity in modern industrial nations of the free world is carried on through this private sector of the national economies. In the United States about 71 percent of the gross national product in 1962 will be generated in the private sector.

As our modern industrial economy developed and became increasingly complex, certain limitations or inadequacies in the market mechanism were recognized. This private mechanism is either not applicable or is inadequate in such important areas as national security, police and fire protection, prevention of fraud, enforcement of contracts, long-range resource development, education, and welfare. Undesirable consequences such as business cycles (inflation and depression), the concentration of economic power, and economic insecurity have developed. Big business and big labor made big government necessary.

Need for Government

Men have recognized throughout history that organization through government is necessary to achieve many of their economic and political goals. Even authoritarian governments such as the Soviet Union claim to be serving the interests of the whole society, although they deny the ability of the rank and file citizen to determine what his real interests are. In the United States, government has been created with a responsibility to society and to the expressed desires of that society. Those persons who operate the government can exercise authority only within the framework of laws which ultimately are established by free choice of the voting public.

Serving the People

Recognition of the need for government, and its responsibility to the individual in a democratic society, is clearly stated in both the Declaration of Independence and the Constitution. The Declaration of Independence states:

"We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain inalienable rights, that among these are life, liberty and the pursuit of happiness. That to secure these rights, governments are instituted among men, deriving their just powers from the consent of the governed."

The Preamble to the Constitution states:

"We the People of the United States, in order to form a more perfect Union, establish Justice, insure domestic Tranquility, provide for the common defense, promote the general Welfare and secure the Blessings of Liberty to ourselves and our Posterity, do ordain and establish this Constitution for the United States of America."

Our government thus exists to serve the people of the United States and to provide those services which they demand through their elected

representatives. During our early history, government activities were limited because demands were few. People were relatively isolated during this period and depended mainly upon their own efforts to provide for their needs.

Gradually, the country became more densely populated and the development of industry concentrated large populations into small areas. At the same time men became more specialized in their work. As men produced more they found it less expensive to pay a part of their increased production for many of the services which they had formerly provided for themselves.

Some of these services could be most efficiently and effectively provided by government and paid for by taxation. Services which traditionally had been performed by government were greatly expanded to cope with the increasing population. Many new problems, caused by the shifting social and economic structure and by technological developments, had to be solved.

The Political Process

In attaining goals through government, policy decisions are made through the political process. These decisions determine the nature and scope of public activity. They are based upon common social objectives rather than upon profit motive and consumers' choice.

Another important difference between the public and private sectors is that the benefits of public activity do not always accrue to the same persons who pay taxes, or in direct proportion to taxes paid; therefore, most phases of government cannot be run like a business.

Government programs are the instruments by which public policies are carried out. The legislature, in response to pressure from interest groups and the general public, establishes programs which will satisfy demands. Once established, the executive is responsible for administering the programs within guidelines set by the legislature. Budgeting and auditing are legislative checks on administration of the program. The courts are available to private citizens and interest groups to review both the administration of the program and the legislation which created it. Court action is based upon the observance of constitutional limitations by the legislature and of administrative adherence to legislative action.

Reason for Government Activity

U. S. citizens have asked, and expect, governmental units to provide a wide variety of services. One important reason for government activity is to meet the demand for basic services which benefit society as a whole rather than individuals or small groups. Examples of this are:

road systems, national security, mail service, police and fire protection, and enforcement of contracts.

A second reason for public activity is to provide services which benefit both individuals and society. These are often provided partially by the private sector of the economy, but fall short of meeting society's needs and goals. Examples are: education, health, and old-age income.

The need for the regulation of activities where social costs exceed the value of individual freedom of choice is the third reason for public programs. Examples of this are: the control of narcotics, gambling, and water and air pollution.

The need for government activity to encourage economic growth and resource development in certain areas was recognized early in our history and has continued to the present. Tariff protection, tax concessions and efforts to reduce business fluctuations are included in this category. Also included are direct cash subsidies to encourage the development of industries with high initial development costs, such as railroads, aviation, and atomic energy research.

The fifth important group of functions provided through the public sector deals with the reduction of interferences with competition. Examples are: the establishment of grades and standards, the control of monopoly power, providing business outlook and consumer information, and employment services.

Some activities or projects can be provided more efficiently by government than through the private sector because of their nature, size, cost and other characteristics. In this group are such large-scale, long-range projects as reclamation, flood control, municipal water and sewage disposal, and similar programs.

Redistribution of income is often proposed as a seventh reason for government activity. This social goal is supported on the grounds that extreme inequality of income causes political instability, since those with very low incomes will resent the lavish spending of the wealthy.

Political and economic stability are, perhaps, results of redistribution of income. There are a number of limiting factors which need to be considered, however. Progressive taxation has some effect upon saving and investment which, if carried to extremes, might discourage production and lower the amount of income available for redistribution. The progressive tax is generally more defensible from the standpoint of ability-to-pay than for redistribution, although the latter is clearly a by-product of the system. Aid to dependent children, health programs, education, old-age assistance and agricultural programs also result in establishing a minimum level of living for low income groups and paid for by those in the higher income classes. One of the argu-

ments for death taxation is the view that this is unearned income for the heirs and it should be at least partially turned back to society.

Government Is Productive

The private and public sectors of our economy have joint roles and responsibilities. Both perform economic functions. The private sector provides most of the necessities and all of the luxuries with no competition from government. The public sector also meets important needs where private activities do not compete. The main differences in viewpoint have arisen over the competitive and supplementary areas where both are involved.

The average citizen often considers the problem of economic growth and production as uniquely a function of the private sector of the economy. However, government activities are as necessary to economic productivity as is private business and in many cases provide services the private sector needs but could not provide for itself.

There are several ways in which government activities contribute to the economic growth of the nation.

The first closely resembles private investment in productive equipment and the charges for service. Public utilities, public transportation, toll roads and bridges, and public housing are examples of this type of activity.

The second class of productive expenditures are those which, over a period of time, will be reproductive in that they increase the income and the tax base. Examples are public health, soil conservation, public education, and public roads. Economists have estimated that servicemen who took advantage of the G.I. Bill for education will more than repay the cost of the program in the form of taxes paid on their increased income.

A third class is productive in that it adds to the current enjoyment of life, but is not reproductive or self-liquidating. This adds to the income base by the amount spent for the service and to the extent that relaxation increases the productivity of the individual. Examples are public parks, recreation, and most public buildings.

One of the most valuable natural resources of any country is its people. The successful operation of a democracy demands that the people who are ultimately responsible for government policy, the citizens, be well informed and able to understand the issues.

Investment in people is probably the most important and most productive investment any society can make. One does not expect land or mineral resources to be productive without capital investment for development. In the same way people must be developed. This requires capital investment in education, health, and aid to children whose

growth and education might be retarded by insufficient parental support. Recreation also is an important investment in creating a climate for maximum production by people.

In the United States, education has long been an important governmental function because it needs to be offered to all in order to take advantage of the inherent ability that exists in all levels of society. This function is becoming more important each year as machines take over manual labor and the need grows for men who can operate and design those machines. The ability to think and reason has become the one asset of man that has not been duplicated by a machine. Physical talents could be developed to some extent without extensive formal education but reasoning ability can be developed only through intensive instruction.

The private and public sectors of our economy are interrelated, interacting and interdependent. Public policy decisions which increase or decrease government services have as profound an effect on the economy as the decisions of automobile or steel companies to increase or curtail production. Economic growth is the result of conscious decisions made by individuals, by groups, and by society as a whole. Public services often make possible, and encourage, private investment and enterprise through maintaining "domestic tranquility," through establishing and enforcing the "rules of the game" of economic life, and by providing such important facilities as transportation, education, health, recreation and many others.

Expenditures for government-produced services and goods are as much a part of the national income as expenditures for those provided by the private sector of the economy. The expenditures of federal, state and local governments have increased from about 20 percent of gross national product in 1948 to nearly 30 percent in 1962, or from \$60 billion to \$160 billion. These payments are made for wages, salaries, services, materials, and ultimately become personal income.

Basic Public Finance Decisions

As our economy grows, we expect and can afford more from both the private and the public sectors. Items once regarded as luxuries or "nice-to-have" are now regarded as necessities. One basic policy decision in public finance is how to allocate or divide our resources among private or public activities so as to attain our individual and social objectives as fully as possible. This determines the quantity and quality of public services, or the level of government spending.

The second important decision is the method of financing these public services. This determines how the cost of government is distributed among the members of society.

Governmental Organization in Nebraska

Public services in Nebraska are provided by over 5,000 different governmental units. These units include the state government, 93 county governments, and a multitude of cities, townships, school districts and special districts. The number of units for each type of government in the years 1942, 1957 and 1961 are shown in Table 1.

State government in Nebraska is composed of three branches: the legislature, composed of one house and responsible for the enactment of all state laws; the executive, headed by the governor and responsible for administering the programs enacted by the legislature; and the courts, which interpret the laws and resolve disputes between the government and individuals, and between individuals.

Detailed information on state governmental organization and duties and functions of the various administrative officers and agencies is given in the *Nebraska Blue Book*, published every two years by the Legislative Council and available for reference in most public and school libraries and in some county offices.¹

The state government is actually the key to all governmental activity in the state. Not only does the state government itself perform a wide variety of activities, but all activities carried on by the other units of government must first be authorized by the state legislature as provided by the state Constitution. Of course, this does not mean that every time a city, township or other unit wishes to add a service it has to ask the legislature for permission. It does mean that the program must be one authorized in general legislation and within the limitations and procedures prescribed by the legislature.

County governments have the least discretion in performing the duties prescribed by the state legislature. Each county was created individually by state legislative action and has only those specific powers which the legislature has granted. There are a limited number of discretionary powers granted to the various counties which allow for

Table 1. Local Governments in Nebraska

Type	Number of units in:		
	1942	1957	1961
School districts	7,009	4,942	3,272
Special districts	198	610	802+
Municipalities	530	534	537
Townships	476	478	478
Counties	93	93	93
Total	8,306	6,657	5,182+

¹ The *Cornhusker Boys' State Manual of Nebraska Government* and *Nebraska State Government* are also excellent sources—(see bibliography, p. 12).

differences in wealth and population, but most of the powers they exercise are required by state law.

One area of discretion allowed the county is the right to divide itself into townships. Twenty-eight Nebraska counties have adopted the township form of government. When townships are created, they assume some of the responsibilities of the county and exercise independent authority over those functions. Most townships today are concerned only with building and maintaining roads and are gradually becoming less important as governmental units.

Cities and villages are the most versatile units of government in the state. They are given a broad choice of activities and, subject to certain limitations according to size, may choose any one of several types of governmental organization. The wide discretion permitted to cities and villages has meant that the number and types of services provided vary considerably from city to city, even among cities of relatively equal population. This factor is sometimes overlooked when tax comparisons are made.

School districts are the most numerous of local governmental units in Nebraska. Although significant reductions have been made in their numbers in recent years, Nebraska ranks first in the nation in number of school districts. Because of the many school districts, Nebraska also ranks first in the number of local governmental units. Further consolidation can be expected in the future. But while school districts decrease in number, other special districts are increasing at a significant rate.

Special districts, although not nearly so numerous as school districts, are the second most numerous type of local government in Nebraska. Over 800 special districts of 14 different types have been established to meet special needs. The principal types are shown in Table 2. These districts normally have a single purpose, but some of them perform two or more services. For example, public power and irrigation are sometimes combined in one district.

Table 2. Special Districts in Nebraska, 1961

Type	Number
Rural fire protection	309
Soil conservation districts	89
Noxious weed eradication	82
Drainage	57
Irrigation	42
Public power	40
Sanitary and improvement	120
All other	63
Total	802

In 1957 Nebraska ranked eighth in the nation in total number of special districts and first in percent of local government revenues and expenditures going through such districts. Special districts made greater capital outlays in 1957 than any other type of local government, twice those of municipalities and three times as much as school districts. Special districts also had over two-thirds of the total debt of local governments in 1957. The number per county varied from none in 7 counties to 32 in Scotts Bluff County.

An important advantage of the multitude of local governments in the state is control of services on a local level. There also are a number of apparent disadvantages. One is the complexity of the system for the average voter. Not only are the pros and cons of issues themselves often complex, but the large number of offices which must be filled may lead to "blind" voting by the average citizen.

Another disadvantage is cost. This is particularly serious in sparsely populated areas. Several studies have been made to determine the level of administration costs in local government. It has generally been concluded that certain of these costs are relatively fixed no matter how small the unit of government. This means that the small unit will have a higher per capita cost than the larger units. For example, a small unit cannot take advantage of specialization, since many are so small several offices are combined into one. Also the pupil-teacher cost in a school with only one teacher and a few students is much higher than in a school with 20 or 30 students per teacher.

One of the reasons for the difficulties in financing the services demanded of local governments lies in their origin. They were formed in a period when travel was measured by how far a man could ride on horseback. Many of our counties were sized so that no resident would be more than one day's ride from the county seat. With modern means of transportation and communication, there is some reason to believe that many local government units could be combined and per capita administration costs reduced.

Supervision of this multitude of local government units is extremely difficult. A lack of knowledge of the technical problems of irrigation, sanitation, education, soil conservation, drainage and many other functions of local government makes supervision by the average taxpayer impractical. In many of these units there is very little supervision by the state government, even when the statute requires a state audit of their books or approval of projects. This lack of supervision encourages inefficiency both from ignorance and/or lack of responsibility. However, this is not inevitable in all, or even most, local government units.

Local governments also provide a number of advantages for our democratic system which would be difficult to replace. Many problems

are particularly local and should be handled by local residents because they have a knowledge of special conditions which the state or Federal government would not have. Local government also provides a training ground for democracy. Many state and national public officials began their careers in county or city government and received valuable training for their chosen fields.

The citizen, too, can become better informed on the processes of government and, occasionally or regularly, take an active role in governing his community. The citizen who is elected water commissioner or to the city council becomes much more aware of the problems of revenue versus demands. He is able to relate that knowledge to his friends and apply it to his own reactions to state and national problems. Local government also provides a laboratory for experimenting with solutions to problems before they are applied on a nation-wide or state-wide basis.

The important considerations for the citizen are that he should maintain the system which gives him the best service for his money while he still keeps adequate control over its operation. Whenever he grants the power to levy taxes, to spend money, and to borrow money to a unit of government, he should be sure that adequate limits are placed on that power without crippling the service and that there is competent supervision of the operation.

Although roughly one-third of the non-defense expenditures in the United States are by local government, citizens often show a serious lack of concern in their local government. Only rarely do local election issues produce more than a fraction of the votes cast in state and national elections.

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