This recession may not be comparable to the Great Depression in its depth and sheer misery, but it is comparable in some of its causes as well as in its unusual length. In Nevada, our Gross State Product has stopped falling, but unemployment keeps breaking post-Depression records.

Among the major contributors to the Great Depression and its painfully slow recovery was a fiscal crisis in the states. State and local governments have limited means to borrow, as well as limits on what taxes they may impose. While this works well in limiting government during normal times, in a downturn it adds fuel to a fire we would rather put out. Our income falls, so we pay less in taxes. Tax revenues fall, and public spending is cut.

Recessions are a chance to prune, and a fiscal crisis can force the public sector to stop doing things it should not be doing, or should be doing better. As the crisis gets deeper and longer, however, it forces cuts in increasingly vital services. The decline in public spending also hurts the private sector that sells goods and services to these governments and their employees, and the vicious cycle continues with more layoffs.

In judging whether government had any effect in helping the economy recover from the Depression, most people focus on what Hoover or Roosevelt did or didn’t do. But, federal government expenditures were less than 3 percent of GDP in 1929. Local governments alone spent twice that, and state and local governments together accounted for three-quarters of public spending.

The drop in state and local government expenditures canceled out a significant share of the effect of increased federal expenditures on national GDP. Because property taxes did not bounce back until the 1940s, the state and local fiscal crisis continued for years. When the federal government began to provide grants to states, most of them were for new poverty relief efforts, not for normal expenditures such as education and public safety.

The long fiscal crisis of the 1930s pushed many states to restructure their tax systems. Nevada legalized gaming and became dependent on that for state revenue, while many states implemented sales and income taxes to replace property taxes. States also became much more dependent on the federal government to collect taxes for them, which come back to the states through grants.

As much as any other state, Nevada is now facing a fiscal crisis of a similar magnitude. The revenues we became dependent on after the 1930s have declined, and are not likely to fully bounce back. The three most recent sets of budget cuts not only are reducing the public goods provided to the state, they are adding further downward pressure on spending in the private sector. Time will tell whether we have learned anything from experience in our response.

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