Owing in Ohio

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In August, Gov. John Kasich and Republicans in charge of the state legislature let pass an opportunity to collect $176 million from the federal government. There were strings attached, the state required to modernize its unemployment compensation system, say, by extending benefits to part-time workers or to those in approved job training programs. Almost three dozen other states met the test. Many did so in view of borrowing heavily from the feds during the recession to keep their jobless funds in operation.

Take the money, and Ohio would have modestly reduced the cost of its borrowing, the state now with a $2.3 billion debt to the federal government.

On Thursday, Policy Matters Ohio, a Cleveland-based think tank, released an analysis that offers helpful context. It persuasively establishes how the state has neglected to manage effectively its unemployment compensation fund — beyond the challenges of the harsh recession.

Eventually, the state must pay back the feds, even with Congress weighing a measure of relief in a two-year moratorium. If the state does not act, Washington will come to collect in the form of taxes on employers. Yet, as Policy Matters Ohio points out, the problems go deeper for a system that relies on employers paying into the fund, a tax levied on the first $9,000 of each employee's wages, to cover benefits for the unemployed.

For 11 of the past 12 years, or long before the recession, employers have paid less into the fund than benefits have been paid out. Know that the threshold of $9,000 has not been adjusted in 16 years. It falls below the national average, or as the report explains, it would stand today at $13,300 if linked to the rate of inflation.

The report adds that if employers in Ohio had paid the average tax of their peers across the country from 1996 to 2006, the state unemployment fund would have benefited from an additional $1.7 billion.

Put another way, Ohio does not have a comparatively generous system. Other states tie the taxable wage base to inflation. Benefit levels here rank below the national average. The share of unemployed workers who receive benefits in the state has declined, recently reaching 22 percent, the lowest level in 25 years.

In 2007, a study commissioned by the state made recommendations on ways to bolster and update the system. Ever since, an advisory committee representing employers and employees has been circling the obvious solution, a mix of added revenue and limits on benefits, plus a temporary surtax to pay down the debt.

Some have balked at a higher tax (or a larger taxable wage base), even though, as the report notes, Ohio employers on average pay less than a penny for each dollar of wages.

Clearly, the state has a burden of pressing priorities. Yet, here is an obligation that serves more than those down on their luck. The economy as a whole is advanced by the availability of jobless benefits, especially in most difficult times.

Policy Matters Ohio has provided a reminder that the challenge is much larger than passing on $176 million. The state has a duty to put the system on sound financial footing. For the moment, it is not, the debt to the federal government reflecting drift, a state failing to take responsibility.