Policy Matters Ohio

JobWatch
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Empty Promises

Ohio job growth trails nation since 2005 tax overhaul

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> **Key findings**
>
> Since Ohio's 2005 tax cuts:
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> - The U.S. saw 1.2 percent job growth while Ohio jobs fell by 4.4 percent.
> - Not a single sector in Ohio outpaced national performance.
> - Ohio has had the fourth worst rate of job growth among states.
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> Ohio's elevated unemployment rate means Ohioans can once again get expanded federal benefits.
>
> Ohio's unemployment rate is better than the nation's because more people have left the Ohio labor market, not because more have found work.

Nearly eight years ago, the Ohio General Assembly passed an extraordinary set of tax cuts. The cuts were justified on the promise that they would boost the state's struggling economy and grow jobs.[1] A serious look at Ohio's job performance since the implementation of the tax cuts points to only one conclusion: The promise has not panned out.[2]

Since the tax cuts were implemented in 2005, Ohio has lost ground when compared to the nation and to neighboring states in total job growth and across all sectors. Ohio has the fourth worst job growth rate among states over the period, and has lost 238,000 jobs since the phase-in began.

Ohio's job growth trails the nation

Ohio has lost jobs since the tax overhaul of 2005. The 2007 recession played a large role in eroding job gains across the country, but the nation eked out a very small 1.2 percent job growth rate between June 2005 and March 2013. Ohio lost 4.4 percent over the same period, falling far behind the weak national growth rate. A 4.4 percent decline translates into a total loss of 238,000 jobs. Figure 1 depicts these changes.

[1] See, http://www.policymattersohio.org/category/research-policy/revenue-budget/sub-topics-revenue-budget/tax-policy, cataloging our research on the 2005 tax overhaul and its ongoing effects.

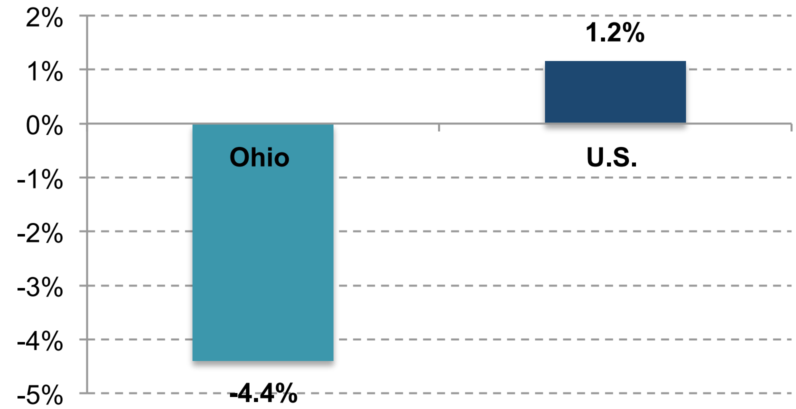
[2] There was little reason to expect that it would, since state tax levels are not a major determinant in economic growth. See, for instance, Bauer, Paul W. and Mark E. Schweitzer, "Paths to Prosperity: Knowledge is Key for Fourth District States," Economic Commentary, Federal Reserve Bank of Cleveland, August 15, 2006. Available at http://www.clevelandfed.org/Research/Commentary/2006/0815.pdf.

Ohio did not share in the job gains made by the nation between mid-2005 and the start of the 2007 recession. As Figure 2 shows, the U.S. experienced job growth of 3.3 percent between June 2005 and the start of the 2007 recession. Ohio's job growth was virtually non-existent. The state added only 3,300 jobs, or 0.1 percent, during the run-up to the recession.

Figure 1

Ohio loses ground relative to nation

Percent job change, US and Ohio, June 2005 to March 2013



Source: Policy Matters Ohio, based on data from Ohio Department of Job and Family Services, CES seasonally adjusted data, available at http://ohiolmi.com/ces/lmr.htm and the Bureau of Labor Statistics at http://www.bls.gov/ces/data.htm.

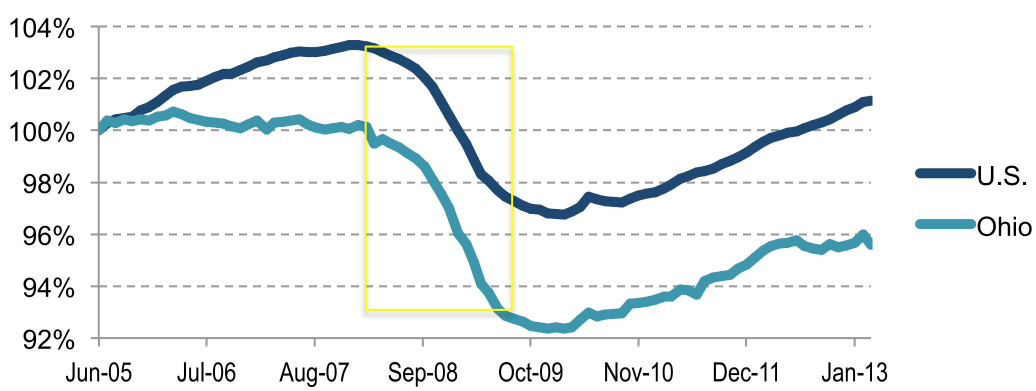
Ohio, like the nation, made gains after the 2007 recession, adding 142,300 jobs (2.8 percent) from June 2009 through the first half of 2012. However, as Figure 2 shows, the state lost momentum in the second half of 2012 and this trend is continuing in 2013. Despite a strong gain of 16,200 jobs in February 2013, Ohio lost more than 20,000 jobs in March. In the first three months of 2013, Ohio added only 1,900 jobs (0.04 percent), so the total gain over the past 12 months was just 2,700 jobs (0.1 percent).

Figure 2

Ohio missed out on pre-recession growth, hasn't regained ground

Percent change in jobs from June 2005 baseline to March 2013

US and Ohio, monthly, seasonally adjusted, non-farm



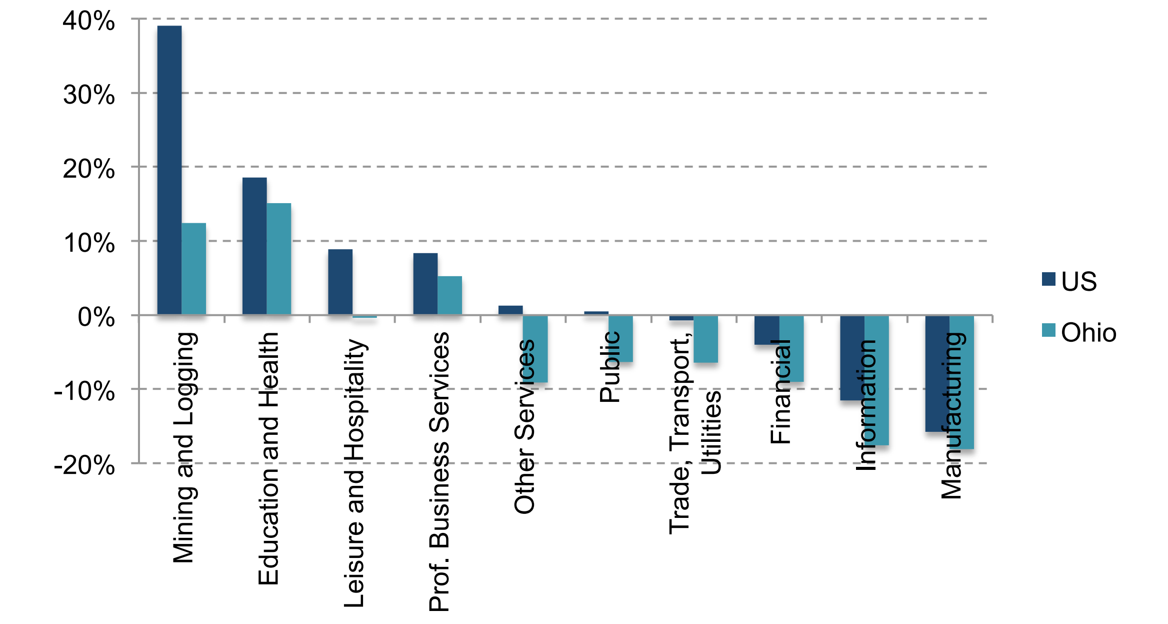
Source: Policy Matters Ohio and the Economic Policy Institute, based on data from Ohio Department of Job and Family Services, CES seasonally adjusted data, available at http://ohiolmi.com/ces/lmr.htm and the Bureau of Labor Statistics at http://www.bls.gov/ces/data.htm. The yellow box roughly marks the official start and end of the 2007 recession.

Since mid-2005, not a single sector in the Ohio economy has outpaced national performance. Figure 3 compares job U.S. and Ohio job change by sector since the approval of the state tax overhaul. Ohio's gains were smaller or our losses were bigger than the nation's in every industry.

Figure 3

All Ohio sectors trail the nation

Percent change in jobs by sector, U.S. and Ohio, June 2005 to March 2013



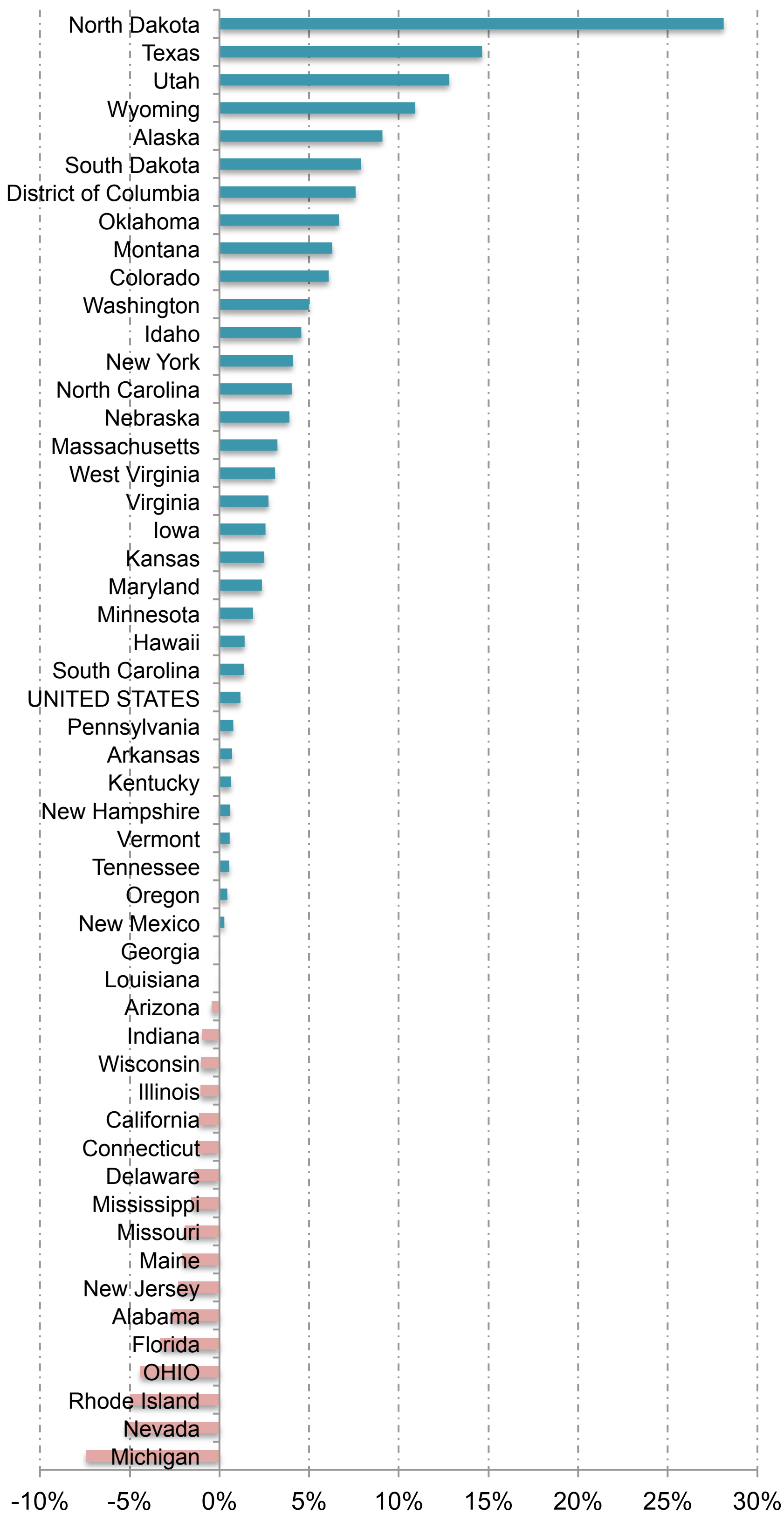
Source: Policy Matters Ohio and the Economic Policy Institute, based on data from Ohio Department of Job and Family Services, CES seasonally adjusted monthly, non-farm data, available at http://ohiolmi.com/ces/lmr.htm and the Bureau of Labor Statistics at http://www.bls.gov/ces/data.htm.

Even the state's top performing sector – education and healthcare, which gained 115,000 jobs – failed to top national performance. Post-recession gains made in manufacturing have not pushed the state higher than the national growth average in the sector, or made up for losses seen since 2005.Some areas that produced small gains nationally – the sector called 'other services,' leisure and hospitality, and public sector jobs – pulled down growth in Ohio. Notably, 50,500 public jobs have been lost during this time. This decline represents lost jobs, erosion of public services, and the loss of community investments.

Overall, Ohio has the fourth-worst job growth rate among states since implementation of the 2005 tax cuts. Figure 4 ranks each state by job-growth rate. Of all midwestern states, only Michigan has struggled more.

Figure 4

Ohio fourth-worst in job growth, June 2005 to March 2013



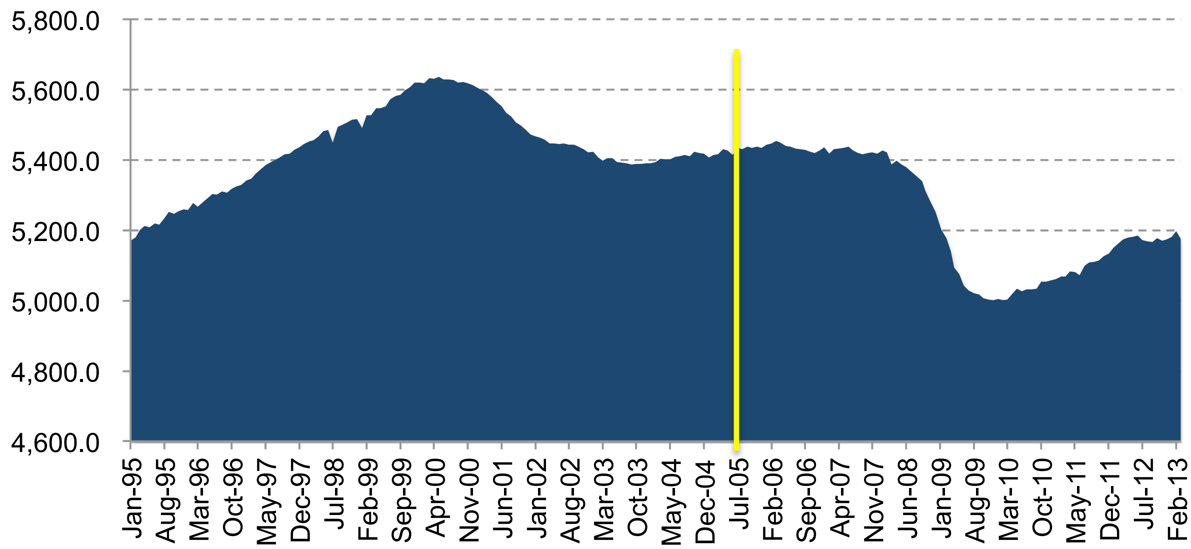
Source: Policy Matters and EPI, based on data from ODJFS, CES seasonally adjusted data, available at http://ohiolmi.com/ces/lmr.htm and the Bureau of Labor Statistics at http://www.bls.gov/ces/data.htm, monthly seasonally adjusted non-farm data.

Ohio's job growth troubles did not begin with the 2007 recession. Ohio never fully recovered from the 2000 recession, and the tax cuts of 2005 did not change the state's job growth picture. Figure 5 tracks the total number of non-farm jobs in Ohio since 1995.

Figure 5

Ohio struggles to rebound from 2000 and 2007 recessions

Ohio non-farm jobs, January 1995 to March 2013



Source: Policy Matters and the Economic Policy Institute, based on monthly data from Ohio Department of Job and Family Services, CES seasonally adjusted data, available at www.bls.gov/ces/data.htm, and the Bureau of Labor Statistics at www.bls.gov/ces/data.htm. The yellow line roughly marks the start of 2005-tax overhaul implementation.

Ohio's unemployment rate hides labor force weakness

Ohio's unemployment rate has marginally increased from a post-recession low of 6.7 percent in December 2012 to 7.1 percent in February and March 2013.[3] March's rate marked the third month in a row at 7 percent or higher, triggering additional federal benefits for the long-term unemployed. Starting the week of May 5, Ohioans receiving federally paid unemployment compensation benefits will be eligible for an additional nine weeks of benefits if they are unable to find work.[4]

Even with this recent increase, Ohio's unemployment rate is currently lower than the nation's, and has been since November 2010.[5] The number of unemployed has fallen faster in Ohio than in the nation over this period. This is a good, and welcome development. These improvements have been used to champion Ohio's economic performance and defend the 2005 tax cuts. Unfortunately, decreasing unemployment is only one factor driving down the unemployment rate.

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[3] *See*, Bureau of Labor Statistics, "Employment Situation," March 2013, available at http://1.usa.gov/13xWA.

[4] This expansion of benefits will help thousands of Ohioans make ends meet while they look for work. Unfortunately, an austerity measure will undercut these benefits. Ohio will implement sequestration for this program by allowing those in a particular tier to continue receiving full benefits as long as they are in that tier but reducing weekly benefits by 16.36 percent for anyone going to a new tier. That amounts to roughly $50 a week for those affected.

[5] *See,* CPS data available through the Ohio Department of Job and Family Services at http://ohiolmi.com/laus/laus.htm. According to the Bureau of Labor Statistics, the difference between the U.S. and Ohio unemployment rates in March 2013 is not statistically significant. *See*, Bureau of Labor Statistics, "Employment Situation," March 2013, available at www.bls.gov/news.release/laus.nr0.htm.

The unemployment rate is an estimate of the number of people in the labor force who are unemployed. To be counted as part of the labor force an individual must be employed or actively seeking work. The rate leaves out many people who have stopped actively seeking work, and does not include those who are working less than full time when they want full-time work. This means that many people who want to work are not counted in the rate, and that the size of the civilian labor force, the number of people working or actively seeking work, can also drive the rate up or down. For example, if large numbers of workers stop actively seeking work and are no longer part of the labor force they are no longer counted in the unemployment rate regardless of whether they stop looking because they are discouraged, retiring, or entering training. Thus, some portion of that group may want and need to work, but cannot find it.

The Current Population Survey (CPS) a survey of households, is used to calculate the unemployment rate. It is a different survey than the survey of employers that is used to calculate job growth, the Current Employment Statistics (CES) survey.[6] According to the CPS, employment in Ohio increased 1.3 percent since the state's unemployment rate started to outperform the nation in November 2010.[7] Over the same time, the nation, which has maintained a higher unemployment rate, saw a bigger improvement in terms of employment, growing by 3.0 percent.[8]

Ohio is not outperforming the national economy in terms of employment growth, thus the relative improvement in the state's unemployment rate is caused by changes in the labor force. The national labor force grew by 0.9 percent between October 2010-March 2013.[9] However, Ohio's labor force shrank, declining by 1.5 percent over the same period. As Table 1 shows, since Ohio's rate fell below the national rate, the state has 153,288 fewer people unemployed, but employment has only increased by 65,914 over that time. A decline in the labor force of 87,374, not employment, accounts for the remaining drop in the unemployment rate. The improvement in the Ohio unemployment rate is due more to declines in the labor force than it is to gains in employment.

Table 1

Ohio unemployment-rate improvement due more to labor force losses than employment gains

Change in employment, unemployment and labor force, Oct. 2010 to Mar. 2013

	Change since October 2010	Percent change since October 2010
Unemployment	-153,288	-27.4%
Employment	65,914	1.3%
Civilian labor force	-87,374	-1.5

Source: Policy Matters based on Bureau of Labor Statistics, CPS data available at www.bls.gov/bls/unemployment.htm.

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[6] The CES, which covers a much larger sample, is usually seen as the statistically more reliable of the surveys on job growth. The CES is designed to be the guide on monthly employment change. For this reason, we primarily use the CES when analyzing job change and the CPS when analyzing unemployment and labor force rates. For more information on the differences *see*, Bureau of Labor Statistics, *Understanding the employment measures from the CPS and CES survey,* at http://www.bls.gov/opub/mlr/2006/02/art2full.pdf.

[7] This rate is calculated using CPS employment data, from October 2010 to March 2013. Data available at Ohio Department of Job and Family Services, LAUS Query at http://ohiolmi.com/asp/laus/vbLaus.htm.

[8] Data available through the Bureau of Labor Statistics at http://data.bls.gov/cgi-bin/surveymost.

[9] According to the CPS, the U.S. civilian labor force grew by 0.9 percent from November 2010 to March 2013.

The nation, like Ohio, has seen decreasing unemployment, falling by 2,842,000 from October 2010 to March 2013. During that time, employment grew by 4,189,000 but the unemployment rate was slow to fall because the labor force grew by 1,347,000. Table 2 shows these changes.

Table 2

U.S. unemployment rate slower to fall due to growing labor force
Change in employment, unemployment, and labor force in the U.S.
October 2010-March 2013

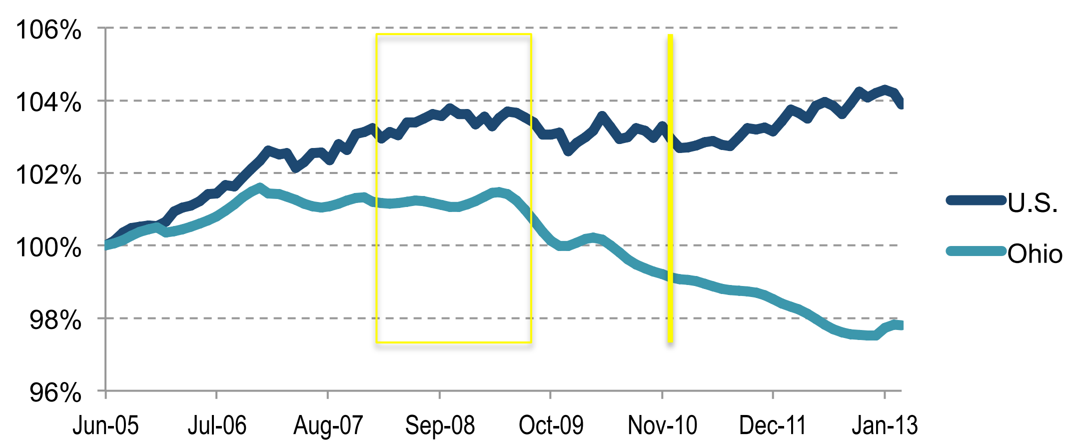
	Change since October 2010	Percent change since October 2010
Unemployment	2,842,000	-19.5%
Employment	4,189,000	3.0%
Civilian labor force	1,347,000	0.9%

Source: Policy Matters based on Bureau of Labor Statistics, CPS data available at www.bls.gov/bls/unemployment.htm.

Ohio's unemployment rate has been lower than the national rate since November 2010, primarily because of state labor-force decline. Ohio's labor force woes did not begin with the 2007 recession, and the state's labor-force growth continued to underperform the nation after the 2005 tax overhaul. Since 2005, Ohio has seen its labor force decline by 2.2 percent, while the national labor force has increased 3.9 percent.[10] Figure 6 shows how the change in Ohio's labor force has diverged from change in the U.S. as a whole since the 2005 tax overhaul.

Figure 6

Ohio's labor force shrinks, while the U.S. labor force grows
Change in labor force for the U.S. and Ohio from June 2005 to March 2013
Monthly, seasonally adjusted, non-farm



Source: Policy Matters Ohio and the Economic Policy Institute, based on data from Ohio Department of Job and Family Services, CES seasonally adjusted data, available at http://www.bls.gov/bls/unemployment.htm. The yellow box roughly marks the official beginning and end of the 2007 recession, the yellow line roughly marks the point in time that the Ohio unemployment rate started to outperform the national rate.

[10] Similarly, CPS employment has moved in opposite directions. According to the CPS, the nation added 1.1 percent employment over this time, while the state lost 3.5 percent. Ohio's declining labor force masked these losses in the unemployment rate.

Conclusion

The 2005 tax overhaul reduced state revenue on the promise of creating jobs. The jobs data collected over the nearly eight years since the cuts started show that the state did not grow jobs relative to the nation over this period. Rather, Ohio lost ground. The state did not share in the nation's job growth leading up to the 2007 recession and has had the 4th worst job growth rate in the nation since it began implementing the tax cuts. The unemployment rate frequently cited as proof of Ohio outperforming the nation masks weakness in the labor market, as fewer Ohioans are seeking work. State economies are complicated and there are many reasons why Ohio's job growth is lagging. However, it is clear that the 2005 tax cuts did not bring about the promised job growth. There is no reason to think that further tax cuts will, either.

JobWatch is an ongoing project of the Economic Policy Institute (www.epi.org) and Policy Matters Ohio, (www.policymattersohio.org). Both are nonprofit policy research institutes.