OHIO

AN ECONOMY THAT WORKS

A REPORT FROM

POLICY MATTERS OHIO

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JANUARY, 2007

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Acknowledgements

Zach Schiller, Wendy Patton, Jon Honeck and David Rothstein contributed substantial sections of this plan. I'm indebted to Jeff Miller for patience, management, and incredible competence. Michael Ettlinger at the Economic Policy Institute provided leadership, advice and ideas, as did colleagues in other state think tanks and at the Demos Center for the Public Sector. This project would not have been possible without the Ford Foundation's generous funding. Interns Greg Claus, Morgan Robinson, Megan Leigh, and Steven Dieterle were particularly helpful. All errors are the sole responsibility of the author, who is grateful, as always, to Mark, Max and Katrina Cassell for reminding her of why a better Ohio is worth pursuing.

Policy Matters Ohio, the publisher of this study, is a nonprofit, nonpartisan research institute dedicated to researching an economy that works for Ohio. Policy Matters seeks to broaden debate about economic policy by doing research on issues that matter to working people and their families. With better information, we can achieve more just and efficient economic policy. Areas of inquiry for Policy Matters include work, wages, education, housing, energy, tax and budget policy, and economic development.

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Executive Summary

Ohio became a great state because its people made smart decisions and sound investments. During times far less prosperous than today, Ohio's citizens considered future needs, invested effort, time and scarce resources, and took a chance on a better tomorrow. Today we are better educated, more prosperous, and more successful because of that earlier leadership.

As Governor-elect Ted Strickland and dozens of other newly elected officials take office, it is a good time to reflect on past accomplishments, consider current challenges, and resolve to make the choices needed to create an economy that works better for everyone in Ohio.

Policy Matters Ohio has pulled together findings from research – its own and that of others – to make recommendations for how Ohio can create an economy that works better for all of the state's citizens. In An Economy That Works, Policy Matters recommends embracing what has worked in Ohio policy while forcing some fundamental shifts in Ohio's approach in five key areas.

First, the state should invest in the future: in education, infrastructure and energy, so that we're prepared to meet tomorrow's needs.

Second, we must create more opportunity in Ohio, by being strategic about economic development, setting high standards, and ensuring that all Ohioans have the chance to contribute to the economy.

Ohio has been a place where new generations could join the middle class. We need to ensure that hard-working people can continue to do so, by making necessities like child care and health care affordable and having a fair, progressive tax system.

Fourth, as a state, we also need to protect the assets that Ohioans have worked so hard to build. We can do so by reining in the exploitative forms of credit that have grown out of control in Ohio.

Finally, we need to keep strong public structures in this state, structures that undergird a more successful Ohio.

Creating a more fair, prosperous and sustainable Ohio requires thinking big. A slate of new leaders has recently been elected in Ohio, with many ideas of their own to offer. This document is Policy Matters Ohio's contribution toward a vision of an Ohio economy that works better for all.

An Economy that Works

Ohio became a great state because its people made smart decisions and sound investments in the future. During times far less prosperous than today, when risks were much larger, Ohio's citizens considered future needs, invested effort, time and scarce resources, and took a chance on a better future. Today we are better educated, more prosperous, and more successful because of that earlier leadership.

As Governor-elect Ted Strickland and dozens of other newly elected officials take office, it is a good time to reflect on past accomplishments, consider current challenges, and resolve to make the choices needed to create an economy that works better for everyone in Ohio.

Before Ohio became a state, residents of the area began providing for the education of young people. As the state emerged, we invested in bridges and roads, pipes and electrical lines, school buildings and hospitals. We established a public university system to train the professional class, and we worked hard to ensure that the hundreds of thousands of immigrants who made their way to Ohio learned English and acquired job skills. At a time when risks seemed higher and resources scarcer than today, we made major investments so that Ohio would always have educated people, solid infrastructure, and a world class manufacturing base.

We advanced racial and economic justice as well. Ohio citizens created underground railroad stops to help slaves escape from the South. We boasted the nation's first black mayor from a large city, and the first integrated college. During much of the second half of the twentieth century, Ohio was a place with a rapidly growing middle class, an excellent job base, and a relatively high standard of living.

Today we face new challenges in Ohio. Our economy is changing rapidly and we need to understand the opportunities of the future and prepare Ohio's young people to seize those opportunities. We have to begin educating our children at a younger age, improve the quality of elementary and secondary education available to all students, and make it possible for young people to get the post-high school education that is increasingly a requirement of economic stability. We must start planning and investing now for a strong Ohio today, tomorrow, and in future generations.

All of these investments will lead to a stronger, healthier, more productive Ohio for generations to come. We recommend embracing what has worked in Ohio policy while forcing some fundamental shifts in Ohio's approach. Our recommendations fall into five areas. We should invest in the future: in education, infrastructure and energy, so that we're prepared to meet tomorrow's needs. We have to create more opportunity in Ohio, by being strategic about economic development, setting high standards, and ensuring that all Ohioans have the chance to contribute to the economy. The state has historically been a place where new generations could join the middle class. We need to ensure that hard-working people can continue to do so, by making necessities like child care and health care affordable and having a fair, progressive tax system. As a state, we also need to protect the assets that Ohioans have worked so hard to build. We can do so by reining in the exploitative forms of credit that have grown out of control in Ohio. Finally, we need to keep strong public structures in this state, structures that undergird a more successful Ohio.

Creating a more fair, prosperous and sustainable Ohio requires thinking big. A slate of new leaders has recently been elected in Ohio, many because they articulated a strong desire to take on challenges. New and returning leaders have many ideas of their own to offer. In this document, Policy Matters Ohio provides elements of a long-term plan to secure Ohio's future. Transforming Ohio requires creative, systemic changes, and this plan lays out some elements of that vision. It meshes well with themes that many newly elected leaders emphasized during their campaigns. We consider this a first step toward an Ohio economy that works better for all.

I. Investing for Ohio's Future

Investments of all kinds are needed to create a stronger Ohio. From education, to infrastructure to energy, devoting resources now will pay off in a better future for ourselves and our children.

Education

Ohio must begin investing in its youngest citizens today. By providing excellent child care during infant and toddler years, high-quality pre-K to all four-year-olds, and all day kindergarten to all five-year-olds, Ohio can ensure that today's infants and children thrive and excel throughout their lives.

Pre-Kindergarten Education

Building tomorrow's students begins early in this generation. Every dollar that Ohio invests now in universal preschool will bring a three-dollar return to Ohio residents in the long term.[1] Governor-elect Strickland made a strong commitment to early childhood education in his campaign, and rightly so.

[1] Bartik, Timothy, Preschool and Economic Development, October 2006, Upjohn Institute Employment Research Volume 13, Number 4.

Unlike early childcare, preschool is an educational imperative to ensure that kids are well-prepared for kindergarten. Demands in the early years of school have become much more rigorous in the past generation. More than forty years ago, Americans recognized the crucial need for education of young children, in establishing the federal Head Start program, which provided educational enrichment to kids with low incomes. Ohio leaders acknowledged the program's importance early on. Governors Celeste and Voinovich established and expanded a state Head Start program to complement the federal program. Voinovich set a goal of providing Head Start services to every eligible child, and at the peak 18,000 children received Head Start through the state and another 35,000 were served through federal funds.

Ohio was a leader among states in the breadth of its head start investment and coverage. But the state has since veered from that visionary leadership as the Taft administration eliminated state funding of the program.

Since the establishment of Head Start in 1965, many states have established a deeper commitment to the preschool education of their own children. Nearby states like Illinois and Kentucky have recently dramatically increased their preschool investments. Ohio must do the same, continuing on the path embarked upon by Governors Voinovich and Celeste. Ohio should, through neighborhood public schools, provide free preschool education to every four year old in the state.

As we build toward that universal system, the smartest and most rational long-term approach, we can more immediately enact two other education-related recommendations of the Groundwork campaign for better early care and education. These are to offer full day kindergarten to all families who want it, and to enroll 15,000 new children under age four in high quality early education. For more on how the Groundwork campaign is building a better early care and education system, go to http://www.groundworkohio.org/.

Elementary and Secondary Education

Before universal, free public education was accepted in most of the world, Americans were enthusiastic supporters of school. The United States pioneered, in many ways, the system of having all children attend free, public schools well into their adolescence. Before Ohio became a state, residents living in what was then the Northwest Territory began providing the means to educate themselves and their children. [2] By 1878, the law required free public education for all students and by 1887, schools were required to be integrated.

[2] Lehman, Lester, The One Room Schools of Monroe County, 1976, published by retired teachers of Monroe, at http://freepages.history.rootsweb.com/~harringtonfamilies/1_RmSch_MCPart1.htm.

As our economy moved from an agricultural to an industrial base, Ohioans appropriately increased education expenditures and saw a dramatic rise in the number of students attending and completing high school. Education levels in Ohio, as in other states, grew at a remarkable pace throughout the twentieth century. In 1940, when the census began tracking it, just one-fourth of the population had a high school diploma. By 1970, this rate had doubled. Still, just over half the state's adult population (53.2 percent) had a high school diploma as of less than forty years ago. Since 1970, we've increased adult education levels by about one percentage point each year on average, so that by the year 2000, 83 percent of the adult population had a high school diploma. This puts us above the U.S. average of 80.4 percent, and our ranking among states has climbed in the past decade (from 29th to 23rd among states). [3]

Ohioans now graduate from high school and college in higher numbers than at any time in history. And well they should – young adults who fail to complete a high school degree have little chance of getting decent employment in today's Ohio. Those with just a high school diploma, who might once have been able to land a good manufacturing job, are now also faced with limited prospects. Ohio's schools must prepare many more of their students for education beyond high school.

Rising to the challenge of creating an excellent K-12 public school system for all of our state's young people is the most important thing we can do as a state. More educated people have better earnings, lower unemployment, more ability to change careers and generally better economic prospects measured in a variety of ways.

But just as education has become more vital than ever, Ohio's commitment to improve its education has faltered. Ohio's system for funding public schools has been ruled unconstitutional repeatedly since 1997, primarily because it relies too heavily on local property taxes. This reliance on local funding creates disparities between districts and leaves taxpayers in more economically distressed communities paying a higher share of their income in taxes. It also encourages destructive competition between communities to lure business. And it can be stressful to communities during downturns – just as jobs leave, tax levels can rise for families, compounding the difficulty.

Another problematic element of Ohio law is that even when property values increase, taxes paid on the rising property values remain at the level passed during the previous levy. So, in order for schools to keep pace as inflation occurs, they must return repeatedly to the voters to pass new levies, an expensive and divisive process that often results in schools being underfunded.

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[3] U.S. Census Bureau, Decennial Census of Population, 1940 to 2000.

Policy Matters has not done research on K-12 funding in Ohio. But others have and at least some of the solutions are clear. We borrow from the Ohio Fair Schools Campaign and others to make some common sense recommendations about school funding reform.

Most fundamentally, the legislature must determine the actual cost of providing a high quality education, and then fully fund districts for that cost. State education mandates, too, should be fully funded by the state. Ohio should significantly increase the portion of local education funding it provides, and it should raise this revenue through a progressive income tax. This will ensure that those most able to pay, who benefit most from our system, will pay more and that unpopular property taxes are controlled. Districts with concentrated poverty should receive additional state resources, to reflect the higher costs they face in bringing struggling children up to par. And communities should not be put through divisive and short-sighted exercises every few years that result in chronic under-funding. Instead, we should fund schools at the level needed to ensure excellence, then demand excellence from the students, parents, teachers and principals who make the system work.

Higher Education

By many measures, the United States has the best higher education system in the world. Students from around the globe flock to the U.S. to study, enriching our communities and our knowledge. Ohio has tremendous higher education assets, both public and private. In 1804, Ohio University was established in Athens, and in 1870 Congress provided the land for the Ohio State University. Because of this public and private investment, higher education levels in the state grew steeply throughout the twentieth century. In 1940, a mere 4.6 percent of Ohio adults had a college degree. Until the late 1960s, college completion rates hovered below ten percent of the adult population. Beginning in the 1970s, college completion rates grew by about a percentage point every two to three years, so that by 2005, 27.6 percent of adults in Ohio had a college diploma, up from less than twenty percent twenty years earlier.[4]

This growth in higher education completion is essential to individual well-being and overall economic growth. In fact, rates are not growing quickly enough. Those with a bachelor’s degree earn substantially more than those with just a high school degree on average. Associate degree completion also yields economic gains, as does education

[4] 1947,and 1952 to 2002 March Current Population Survey, 2003, 2004, and 2005 Annual Social and Economic Supplement to the Current Population Survey (noninstitutionalized population, excluding members of Armed Forces); 1950 Census of Population and 1940 Census of Population (resident population), at http://www.census.gov/population/socdemo/education/cps2005/tabA-2.xls (accessed November 2006).

beyond a four-year degree. In some cases those gains have not continued to grow as we might like, but a higher degree is still one of the best routes to a higher-paying, more secure and more rewarding career.

Although Ohio residents have done much to increase their education levels, Ohio's population has lower college completion levels than the national average. We used to say this was because of all the well-paid manufacturing jobs that didn't need a degree. Not any more. Nearly 20 percent of the state's manufacturing employment base has vanished since the recession of 2001. Today, teens are told to head to college. They find a financially perilous road to travel: College costs nationwide are rising dramatically, and Ohio's four-year campuses are more than 25 percent more expensive than the national average. Community colleges here are two thirds more costly. Our grant aid doesn't help as much as it should: grants are spread broadly but are small. So students depend heavily on loans. Ohio community college students are twice as likely to take out a loan as those elsewhere in the nation, and they are nearly twice as likely to default on those loans. Ohio is among the top ten states in terms of loan burdens of graduates from four-year public universities.

Tuition is high in large part because state funding to underwrite basic instruction has fallen by 12 percent in inflation-adjusted dollars since academic year 2001, even while enrollment expanded by 13 percent. During this time, tuition soared by 29 percent at two-year campuses and 42 percent at four-year campuses.
The results are predictable. While 56 percent of our high school graduates go on to college, only 21 percent of low-income students even try. Ohio is the second lowest among the fifty states in college graduation rate for African American students. Over three quarters of students from the top-earning families graduate from college by the time they are 24, compared to just 8.6 percent of those from low-income families.[5] A better educated Ohio means increasing accessibility for those of modest means. Fortunately, investing in education is something Ohioans support.[6] This investment should be a priority for the incoming governor and the legislature. We recommend three steps that can get us back on track.

1. Restore funding to basic instruction at Ohio's public campuses to keep up with national averages, inflation and enrollment.

2. In return for this more generous state funding, require the public system to contain tuition increases. Tuition should not rise more quickly than family incomes in Ohio.

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[5] Tom Mortensen, Postsecondary Education OPPORTUNITY, Number 156, June 2005, p.1.

[6] Ohio's Education Matters: Public Priorities for the Future of Ohio Education. 2006. KnowledgeWorks Foundation. 2 Jan. 2007 http://www.kwfdn.org/poll/2006/_pdfs/2006_Poll.pdf.

3. Both campuses and the state must work together to direct more resources to grant aid for needy students at public schools. We can start by fully funding the Ohio College Opportunity Grant. We've allowed a financial mismatch to develop in student financial aid. Too much grant aid goes to students attending pricey private schools, regardless of family need. Too little money goes to aid students at the more price-effective public schools. Universities should be encouraged to redirect endowment and institutional aid to needy students though strategic use of state matching funds. Funds can be provided by redirecting use of money from the Student Choice Grant program.

Workforce Development

In the twenty-first century, learning does not just take place in elementary school, high school, or college. With young adults now projected to hold multiple jobs in their careers,[7] Ohioans have to be nimble, prepared to change jobs, learn new skills, adjust, and adapt. Our public system has to help them do so. One vehicle that Lieutenant Governor Lee Fisher has proposed is directing more economic development assistance into workforce development – by helping firms access well-trained workers, we foster deeper roots in Ohio and ensure that working people benefit from development. This is done already, but should become a greater focus.

We don't currently do enough to ensure that community colleges are connected to employers and we don't do enough to ensure that low-income students can access college. For those who have already joined the work world, we could take many steps to provide flexibility and encourage lifelong learning.

A number of common sense strategies would make it substantially easier for low-income adult workers to access needed training for careers. To substantially increase the training levels of these workers, Ohio should:

- Bring classrooms to the neighborhood or to the workplace;
- Keep college costs low and provide direct aid in the form of grants and loans to those who have financial needs;
- Reward training providers who serve low-income students, a growing demographic that will be the work force of the future;
- Ensure that training is geared toward the needs of real, local employers. Work with employers and unions to build career ladders so that the connection between education and improved productivity is clear to both employees and employers;

[7] Malveaux, Julianne, Workforce 2000 - jobs for the millennium Essence Magazine, May 2000, available here: http://www.findarticles.com/p/articles/mi_m1264/is_1_31/ai_61891742 (accessed November 2006.

♦ Provide critical supports like child care and transportation that enable students to access training;
♦ Ensure that remedial education is offered at very low cost so that students do not burn through precious Pell grants and other financial support before starting programs;
♦ Provide adequate funding for community colleges and joint vocational schools to help students with financial management as they navigate the demands of loans, grants, employment and academics.
♦ Recognize employment experience for college credits through objective assessments; and
♦ Make sure training is of sufficient depth and duration to really improve skills.

Frequently, it is adult learners who have the greatest need for new training, but face the greatest obstacles. The typical places of adult training, community colleges and vocational schools, must be provided with the tools they need to allow adults to succeed. These institutions must be adequately funded and should be rewarded for succeeding at serving those who need training the most.[8]

Retaining skills and experience – placing displaced workers

Until the late 1970s, the U.S. and Ohio economy were marked by high levels of attachment of workers to their workplaces. When workers unexpectedly lost their jobs, government policy was oriented toward training them for new work, or even providing them with publicly-subsidized employment.

As a state and as a country, we have made a number of policy choices that now make long-term layoffs more common and job loss more likely. Trade pacts have expanded international trade, increasing competition from lower-wage countries. Federal policy has deregulated many industries, which increases the tendency to eliminate parts of the workforce. State and local economic development policies have encouraged companies to move within this country. We've increased barriers to unionization, blunting one of the tools that workers once had to fight for job preservation.

In part because of these changes, nationally and in Ohio, hundreds of plants have closed and hundreds of thousands of workers have lost their jobs. For those who do lose jobs, it is often extremely difficult to find comparable work. Most laid-off

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[8] Community Research Partners Director Roberta Garber offered five similar themes on a revamped workforce development system in a recent Columbus Dispatch guest column. Garber said our system should be adult-focused, aligned, (with minimal red tape), accessible regardless of where you live or how you learn; affordable, and accountable. We agree. Learn more at www.communityresearchpartners.org and also check out the thoughts of the KnowledgeWorks Foundation at www.kwfdn.org.

workers do not find work at comparable pay levels to the lost position. Federal and state programs are now oriented primarily toward quickly placing workers in private sector jobs with limited attention to job quality. The Bureau of Labor Statistics' worker displacement surveys find that two years after most layoffs, only 27 percent of workers are making their old salary again, and only two-thirds are working at all.[9]

This approach does not serve individual workers well because they and their families are forced to live under much lower levels of compensation. But it also does not serve us well collectively, because the substantial skills these workers developed in their old positions are not being used, and our economy is less productive as a result. When working with dislocated workers, high-skill training should be encouraged instead of immediate work placement. Programs should:

- ♦ First and foremost, target high-wage occupations with benefits and career paths.
- ♦ Create partnerships with employers and unions so that training is appropriate for jobs needed.
- ♦ Tailor programs to individuals.
- ♦ Consider age – older workers have less time to recoup wages after training, younger workers may have more ability to do things that differ dramatically from past experience.
- ♦ Provide financial support during training.
- ♦ Provide high-quality training in hard and soft skills
- ♦ Offer job development, placement, retention, and advancement, and workforce supports like help with child care.
- ♦ Emphasize workforce training to a greater degree, instead of tax credits or other subsidies, as an economic development tool. Well-trained workers keep firms rooted in Ohio.

As a society, we've made choices that make layoffs and job loss more likely. For workers affected, the consequences can be devastating. Providing high quality training is one of the public structures that we can put in place to reduce the negative consequences when workers lose jobs and to ensure that companies stay in Ohio.

Building Ohio: Infrastructure in the 21st Century

Ohio's physical infrastructure has allowed private enterprise to thrive. From the nation's first traffic light in Cleveland, to the Roebling Suspension Bridge in Cincinnati, to the 1000-mile network of canals throughout the state, public investments enabled entrepreneurs to make fortunes in Ohio. Much of Ohio's early infrastructure is now aging and needs updating. And infrastructure needs in Ohio

[9] Uchitelle, Louis, The Disposable American: Layoffs and Their Consequences, New York, Knopf 2006.

have changed – just as our great grandparents had to anticipate what our grandparents might need, we have to think about tomorrow's requirements.

Infrastructure to reduce our dependence on foreign and polluting energy sources is perhaps our most important challenge and is discussed separately in the next section. Five other current needs stand out in the infrastructure challenge: investment in core areas, increasing connectivity, the Housing Trust Fund, high speed rail and other transit, and maintaining our stellar library system.

Investing in Core Areas

Failure to maintain our urban centers and inner ring suburbs has encouraged outward sprawl, with negative consequences for energy use, air and water quality, equity and community. This pattern increases costs for infrastructure while wasting and neglecting what we already have. Reinvesting in our core areas, fixing existing roads before building new ones, prioritizing core areas for water and sewer maintenance and doing more to plan will result in a better Ohio – more efficient, more equal, and more prepared for the future.

One policy shift that could help in this area is building code reform. About 30 percent of housing units in the United States are more than fifty years old and 75 percent are more than 25 years old, especially in older states like Ohio. Building codes are often written to deal only with new construction, but New Jersey reformed these codes to better manage rehabilitation of older structures. This encourages renewal of developed areas, revitalizes existing communities, protects the environment, saves developers' resources, and creates an incentive to invest in urban areas. In addition to creating jobs in the building trades, this can expand the tax base in cities, prevent sprawl, and preserve unspoiled areas. Maryland, Rhode Island and California have taken steps to follow New Jersey's lead and Ohio should do the same. [10]

Our friends at Greater Ohio, a research and advocacy group, have developed a briefing book that articulates a cohesive plan for other aspects of land use in Ohio.[11] Its plan calls on leaders to create a vision for growth, invest state resources strategically, enable wise land-use planning at the local level, and promote regional collaboration. The group organizes its policy recommendations into seven categories that include: Revitalizing large and small cities as economic engines; Securing more sustainable funding for schools; Reexamining transportation funding and priorities; Easing development pressure on

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[10] Horn, Bernie, State Action p. 240.

[11] Krebs, Gene and staff, If Sprawl Meant Jobs, Ohio would have Full Employment: Policies for Redeveloping a Great State, Greater Ohio, fall 2006, http://www.greaterohio.org/documents/go-book-final-10-10-06.pdf.

working farmland and sensitive natural areas; Linking smart land use and energy independence; Encouraging convenient and walkable town centers, and; Strengthening regional cooperation. The report provides a compelling vision for a smarter way to approach physical development and should be read by anyone who cares about the future of Ohio. Find it at www.greaterohio.org. The first suburbs coalition (www.firstsuburbs.org) has also taken leadership on "fix it first" strategies to revitalize core areas and preserve unspoiled farm and forest land.

Connectivity in Ohio

Most American adults and even more young people now use the Internet, to e-mail, do work, keep up on the news, learn about the world, buy products, have fun and stay connected. Broadband Internet access is an essential part of commercial, professional and recreational activity in the twenty-first century. Business travelers pay a premium for Wi-Fi-enabled hotels, and students are drawn to colleges with campus-wide high-speed access.

Ohio could get in front of the limitless demand for broadband access by wiring the state and making the ability to get online a symbol of the benefits we can get by living in Ohio.

At last count, 68 U.S. municipalities had put in place municipal Wi-Fi networks, with many more planned.[12] Ohio can encourage its cities to provide universal wireless broadband connection, and can invest in the supporting backbone infrastructure statewide. By ensuring that this work is done by skilled, unionized employees, Ohio can generate quality short-term jobs wiring the state and can ensure that the work is well done. In the long run, this will give our state's businesses and consumers an economic edge, helping Ohio companies capture investment and jobs that depend on the broadband internet.

Housing Trust Fund

Another physical investment that could help Ohio's economy is to lift the cap on the Ohio Housing Trust Fund, a 15-year-old funding stream that generates revenue for affordable housing from recordation fees. The Coalition on Housing and Homelessness in Ohio (COHHIO) has taken leadership on this issue. They estimate that up to 60,000 Ohio families can not afford adequate housing, and that, even though the recordation fees generate about $65 million annually, the fund is capped at $50 million annually. The $15 million difference is spent on other things. By lifting the cap, COHHIO estimates that the state could generate 9,000 new construction jobs; capture additional federal and private resources; rehabilitate dilapidated and vacant

[12] http://muniwireless.com/municipal/1359

properties; improve neighborhoods and living conditions; and increase stability for many Ohioans. To learn more, see www.cohhio.org.

High Speed Rail and Mass Transit

Governor-elect Strickland should meet with governors of nearby states to consider options for a high speed rail network connecting Cleveland, Columbus and Cincinnati to cities like New York, Philadelphia, Pittsburgh and Chicago. As air travel becomes more burdensome, the need for this infrastructure is increased. In addition to employing skilled, unionized workers to construct the rail lines, Ohio could benefit by making component parts that go into the trains. And as with other long-term investments, Ohio businesses will gain in the end, as our state, so centrally located, becomes a place from which it is easier to come and go.

Like rail between big cities, mass transit within cities is a smart investment. It reduces energy use, enables those without cars to better access employment, expands the workforce available to centrally located firms, encourages location in core areas, and increases the benefits of smart land use. Governor Strickland and the new legislature can help urban communities and Ohio business by increasing the percentage of state transportation dollars that is spent on mass transit. The Ohio rail development commission is a source of information on this issue.[13]

Stellar Libraries

Ohio has a superb library system, the best in the nation by many measures.[14] For the past three years, the state's library system has been ranked first, and three of Ohio's big cities are among the nation's top eight urban systems. This impressive system was endowed by industrialists like Andrew Carnegie and John D. Rockefeller and cultivated by ongoing state resources.

To remain strong, Ohio's library system requires consistent support. Funding cuts in 2004 forced some libraries to reduce staffing, close on Sundays, eliminate services for continuing education, and make plans to shift funding to local taxpayers, where it would compete with school funding. In June, the Ohio Legislature passed a new $51 billion budget for 2006-07 that overturned the proposed 5 percent reduction in the local government fund supporting public libraries.[15]

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[13] Find them at http://www.dot.state.oh.us/OHIORAIL/.

[14] HAPLR Average Statewide Scores http://www.haplr-index.com/AverageStatewideScores.html, HAPLR Top 100 Libraries http://www.haplr-index.com/HAPLR100.htm

[15] American Library Association. State Funding News http://www.ala.org/template.cfm?section=libraryfunding&template=/cfapps/pio/state.cfm&state=oh

Libraries in Ohio provide our state with an opportunity to excel, while increasing the education of our citizenry. From story hours for toddlers, to resource librarians for elementary students, to safe environments for teens, Ohio libraries complement our school system. They also provide a community gathering place, centered around learning and books, a resource for job seekers, and a free place to access the internet. It's no wonder that Cleveland's public library system has been dubbed "the people's university". Careful stewardship of this gem will allow Ohio's libraries to continue to shine.

Energy Independence

The United States has always taken on technological challenges with gusto and innovation. As an industrial leader, Ohio played a major role in the invention or production of products from jeeps to jet engines, paint to Purell, vacuums to vehicles.[16] This state continues to claim more than its share of medical breakthroughs, and we still have some of the best manufacturing infrastructure and skill sets in the world. However, on perhaps the biggest challenge facing our state and our country, Ohio is not living up to its reputation as an innovative problem-solver.

That challenge is our dependence on foreign oil that pollutes air and water, makes us reliant on unstable regimes, steers our foreign policy, and sucks tremendous financial resources out of our local, state and national economy. When we heat our homes, drive our cars, cool our workplaces or turn on our lights, we pollute the environment and contribute to global warming.[17]

Dire predictions about the negative economic consequences of global warming abound. A report released in October 2006 by the British government predicted that global warming would cost the world economy trillions of dollars and trigger a global recession.[18] If those funds were instead invested in energy efficiency and a growing supply of renewable energy, national security could be enhanced, global warming slowed, and with the right policies, domestic jobs created.

Herein lies the opportunity. We have the natural resources, technical ingenuity, and manufacturing and other capacity needed to achieve, relatively quickly, far cleaner energy generation and far greater energy efficiency. Seizing that opportunity would

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[16] Ohio Made Product List, Department of Development, accessed December 2006 at http://www.odod.state.oh.us/research/FILES/B700000003.pdf

[17] Holdren, John P. The Energy Innovation Imperative: Addressing Oil Dependence, Climate Change and Other 21st Century Energy Challenges, Innovations/Spring 2006 (MIT Press).

[18] Revkin, Andrew C. "British Government Report Calls for Broad Effort on Climate Issues", New York Times, October 30, 2006.

have enormous benefits to our quality of life, our national security, our prosperity, and our environment.

Few states stand to benefit as much as Ohio. A national investment of $71 billion in renewable energy production could create 22,000 manufacturing jobs in Ohio through production of component parts for renewable energy generation, if Ohio firms act decisively. [19] Ohio is well positioned to gain jobs and investment if demand for renewable energy is increased and domestic production is tapped.

It's an opportunity we can ill afford to miss. Ohio hosts an incomparable industrial infrastructure, but we have lost 194,000 manufacturing jobs, 20 percent of the manufacturing employment base, since the recession of 2001. Renewable energy generation could be instrumental in protecting Ohio's industrial infrastructure from further erosion while providing jobs that pay a living wage.

Some of our industrial and economic competitors now require that a share of future energy demand be served through renewable energy. The United States has no such policies at the federal level. In the absence of national action, 22 states and the District of Columbia have put their own policies in place. These state policies provide a menu of options Ohio could choose from to reduce energy use, achieve energy savings, and move toward reliance on renewable energy and fuel technologies. Governor-elect Strickland has voiced a strong commitment to embracing renewable energy. Below are ways that he can fulfill that promise.

Renewable Ohio

Ohio should enact a Renewable Portfolio Standard, as 22 states have done. This would require a percentage of energy supplied by each utility in Ohio to be derived from renewable sources, creating the demand for renewable energy and making it reasonable for suppliers to invest as necessary to produce renewables.

Ohio provided leadership by creating a Public Benefits Fund, which subsidizes renewable energy production and encourages energy efficiency. However, the Ohio program has remained embarrassingly small, given the size of our state. We must strengthen the existing fund, extend it beyond its sunset date of 2011, and expand it to include rural cooperatives and municipal utilities. It should generate enough funding to provide incentives that substantially increase energy efficiency and diversify energy supply. In other states such funds are used to subsidize renewable energy production, help firms retool so they are positioned to make parts for

[19] Policy Matters Ohio, Generating Energy, Generating Jobs, October 2005.

renewable energy production, and encourage factories to develop on-site co-generation or other energy efficient techniques.

Not only can Ohio mandate production of renewable energy through an RPS, it can also provide incentives to support development of a new industry in renewable energy production. For example, a share of Third Frontier research and development funds should support renewable energy development. Industrial development bonds can be used in Ohio to expand access to reasonably priced capital for renewable energy production, storage and transmission infrastructure.

Efficient factories, efficient buildings

Ohio should explore an energy efficiency portfolio standard, which would require that a portion of a utility's long term energy plan come from a reduction in demand. This could be complemented by a credit trading program in which energy efficiencies gained on the plant floor could be 'sold' to the utility, allowing the utility to meet requirements for overall energy efficiency.

The state should establish green building standards for all construction or rehabilitation that involves public financing. We would also benefit by updating state building codes to meet the most recent International Energy Conservation Code (IECC) standards.

All economic development programs must promote more efficient and profitable manufacturing while saving energy through environmental retrofits, improved boiler operations, and industrial cogeneration of electricity, retaining jobs by investing in plants and workers.

Modern Electrical Infrastructure

Ohio should continue to deploy the best available technology, like scrubbers, to existing plants. The state should also continue to encourage research on new technologies to capture and sequester carbon. Ohio should make it possible for small generators of renewable energy to sell to the grid at market rates. We can do this in part by allowing and improving net metering, a method of crediting customers for electricity that they generate themselves.

Green and made in Ohio

Ohio should upgrade its state automobile fleets with more efficient vehicles and renewable fuels. We should also encourage the manufacture and use of hybrids by in-state automakers. Finally, the state should encourage appliance efficiency standards that go beyond federal government requirements – Ohio's appliance manufacturers could benefit from this approach.

These ideas are not radical — they are already being implemented in a number of states around the country, with impressive results. Learn more at www.apolloalliance.org.

II. Opportunity in Ohio

Ohio was once a place to which immigrants came to pursue opportunity. Increasingly, as job growth is stagnant, young people fear they must leave the state to find stable careers. Smarter policies can help restore opportunity to Ohio.

Strategic Development

Economic development should be focused on assisting firms in ways that increase their commitment to a community, increase the well-being of the workers, and build community assets. Helping train the workforce, accessing good public infrastructure, providing links to research partners, improving communication between firms, helping firms solve problems collectively, helping plan for future workforce needs: these are all areas where individual companies can have a tough time succeeding on their own. By making our community colleges more responsive to what employers need, by ensuring that university researchers and local companies can get together, and by anticipating how retirement might lead to skill shortages, Ohio's economic and workforce development system can help business thrive.

Five principles should steer decision-making regarding economic development. These would help the state become more focused on providing services to high road employers who are rooted in Ohio and want to innovate, improve their workforce skills, and find new markets. Policy could then focus less on recruiting from other states and giving away expensive credits and subsidies, and more on building a strong, permanent, high-skill, high-road Ohio. Good principles include:

1. Ensure a strategic purpose for any subsidy that is provided. Always develop an explicit cost-benefit analysis. Repayments should be required when jobs are not provided as promised
2. Target incentives to high unemployment areas or areas with persistent poverty. Jobs should pay living wages with good benefits and should have career ladders for long-term advancement.
3. Assure that assisted companies are "anchored" to Ohio because of the skills of our workforce, our research strengths, or our strong supplier base. State incentives should not be used merely to lure businesses from one locality to another.

4. Consider urban density, avoid sprawl and do not subsidize greenfield development. For instance, incentive programs should favor sites with access to public transportation.
5. Workforce and economic development should be integrated – when the economic development assistance that we provide to firms is in the form of a well-trained workforce, it roots the firm in the community and provides lasting benefits to Ohio. When it is in the form of pure financial assistance, the firm has no reason not to try to get a better package out of a neighboring state in a future year.

A strategic economic development department can spend development resources much more effectively and see better results by following the principles articulated above. Some ways of putting these principles into action follow.

Unified Development Budget

Ohio should put in place a unified economic development budget, as Governor-elect Strickland argued during the campaign. A unified development budget would list all state aid to private companies, including tax expenditures, in one document that is electronically accessible to the public. This approach would help the state to have a clear vision of economic development goals, a transparent understanding of spending toward those goals, and a head start on monitoring progress on those goals. The budget would include details about financial and other assistance provided; descriptions of the number, type and wage levels of jobs to be created; progress reports on past economic development deals; clarification of what companies need to achieve and when; and provisions of how companies will repay the state if they fail to meet their goals.

We should also track the ways in which we subsidize firms by helping their workers get by. Low-wage work can have high public costs and understanding those costs is crucial. When employers don't provide health care or don't have salaries high enough to meet needs, the state sometimes has to pick up the cost, in the form of Medicaid, cash assistance, child care assistance or other subsidies. The new administration has voiced support for releasing this kind of information. This public cost of low-wage work should be understood and quantified, to help Ohio make smart decisions about the kind of employment we want in the state.

This approach makes sense in our competitive economy, as the state of Illinois recognized in recently putting in place a unified development budget. Quite simply, it will enable Ohio to know how much is being spent, what outcomes are anticipated, and what to do if outcomes are not met. We expect this kind of accountability from entities doing business with the state.

Enterprise zones

Tax abatements to lure firms from one location to another are a particularly weak way to assist companies. Reams of research show that firms rarely make decisions because of tax abatements, but they are skilled, once they've narrowed their choice down to a few communities, at getting those areas to compete to exempt them from taxes.[20] Often tax abatement offers turn into wars between two nearby communities – Ohio clearly loses if Columbus and Cincinnati compete to provide breaks to a firm.

The Enterprise Zone program is one example of a program gone wildly awry. Initially intended to aid core urban areas in sore need of development, it has morphed into a program that exists in 81 of Ohio's 88 counties. Wealthy communities like Hudson and Solon now offer tax abatements. As a result, higher-income areas now get more jobs and investment associated with their enterprise zone programs than do low-income areas. The program has created a "race to the bottom" where communities give up property tax revenue, and companies go where they likely would have gone anyway. Homeowners are then stuck with a higher share of the property tax burden, or schools are stuck with insufficient resources. It's time for the state to step in.

Ohio should impose a moratorium on new enterprise zone agreements while lawmakers consider substantive change or elimination of the program. Recent Ohio tax law changes will eliminate a key component of local property taxes for all businesses: the tangible personal property tax. The need and value of tax abatements under the new tax code is greatly reduced. Local governments and schools face uncertainty and funding decline because within a few years, replacement revenues they are to receive in place of this tax will start to drop. Eventually they are to disappear altogether. State legislators can help taxpayers and businesses by removing the need to abate taxes for business relocation.

If the program is reinstated, it should be with much higher standards for participation, including high wage jobs, stricter time limits on the abatement, commitment to training and career ladders, use of prevailing wage in construction, right to collective bargaining, transit access, and targeting only to core urban or lagging rural areas where long-term economic hardship requires unusual efforts.

No poaching

The same destructive competition that communities experience with the enterprise zone program occurs with other programs at the state and local level. The state of

[20] See the Good Jobs First webpage at www.goodjobsfirst.org – two studies that discuss this involve Wal-Mart's subsidy chasing: http://www.goodjobsfirst.org/pdf/wmtstudy.pdf, and state enterprise zone and tax increment financing programs: http://www.goodjobsfirst.org/pdf/straying.pdf.

Ohio competes in a negative way with its neighbors, offering financial subsidies that leave our state less equipped to provide the public goods businesses and individuals need to thrive. A vibrant public sector with a solid tax base translates into a set of public structures that can provide excellent education, high quality infrastructure, cutting edge university research resources, and dependable services. This is what enables business to prosper.

Although a substantial economic development literature affirms the correlation between a vibrant public sector and a thriving economy,[21] individual businesses are behaving rationally when they try to obtain tax abatements, free services, infrastructure upgrades or other forms of government subsidy. And in any one case, if a community can lure a successful firm by offering some modest incentive, it may be a rational step for that community as well. The problem is that the system as a whole is wildly self-destructive – it's clearly bad for Ohio and Michigan when both now have to give up years of tax revenue to get companies to set up shop.

Governor Strickland can play a leading role in discouraging poaching of this sort at all levels – and has said he wants to do so through community charters. It can be difficult to regulate this kind of antagonism among neighbors, but leaders can voluntarily enter into agreements to call a truce. We recently offered a summary of some existing agreements for Cleveland Mayor Frank Jackson. Find it here: http://www.policymattersohio.org/anti-poaching_backgrounder.htm.

Governor Strickland should organize two different summits – one among Ohio communities, to encourage them to enter anti-poaching agreements with each other, as several pioneering Cuyahoga County municipalities recently agreed to do with the city of Cleveland. The second summit should be among states – New York, Pennsylvania, Michigan, Ohio, Illinois, Indiana, Kentucky and Wisconsin should all have reasons to unite and agree to refrain from such rivalry.

Setting Standards

One of the ways that Ohio can support business is by setting clear standards. When firms know that their competitors are contributing to the tax base, being stewards of the environment, valuing workers and paying by the rules, then the terms of competition are fair. But when companies think that their competitors are shirking, it makes it hard to adhere to a high standard. Ohio took a step forward by passing a minimum wage above the federal level, as 28 states and Washington, D.C. have now done. Putting in place other high standards will help close off the low road that

[21] See for example Economic Growth and the Public Sector: Evidence from the States, by Jon Honeck, September 2006, available at http://www.policymattersohio.org/state_economic_growth_2006.htm.

business can be tempted to go down. Instead, we should help pave the high road, an environment that works for the high-wage, high-skill, high-quality, community-minded, forward-thinking firms that make the best employers and neighbors.

Minimum wage

By raising the minimum wage, Ohio voters set a basic floor for wages in this state. In the process, more than 700,000 Ohio workers will get a raise in January. Unfortunately, the implementing legislation that lawmakers passed during the December 2006 lame duck session excluded some workers from minimum wage protection. Legislators also limited the ability for workers who are illegally paid less than the minimum wage to sue as a group; such class lawsuits are essential when large groups of people have their rights violated but lack means to independently seek legal action. The legislature's action will ensure at least one lawsuit at the outset – by enacting legislation that violates the constitutional amendment's intent, the legislature has invited legal action to clarify.

Despite poor implementing legislation, a diverse group of workers will benefit from the wage increase. Women, men, parents, single people, black and white all will be better positioned to advance in the workplace from this stronger starting point. States with higher minimum wages have had more overall job growth and more job growth in the retail and small business sectors often seen as disproportionately affected by the minimum wage. The new governor and attorney general should ensure that this law is enforced. This basic floor provides a solid jumping-off point for stronger measures to promote good jobs, and it makes clear that the Ohio voting public wants policies that value work.

Living wage

With a more reasonable minimum wage in place for all Ohio workers, the governor and legislature are in an excellent position to begin attaching more meaningful requirements to employment over which the public sector has more influence. Workplaces that have public contracts or receive public subsidies should be held to higher standards. The standards we describe in our economic development section are a solid start toward this approach. The living wage ordinances that several Ohio cities have enacted also establish this precedent. These ordinances have raised the wages of people working under city contracts or working for firms that get economic development subsidies. In Cleveland, where we did an analysis in 2004, job levels had remained steady and costs had not grown substantially.[22] More Ohio cities, and Ohio counties, should put in place this common sense measure so that Ohioans working to

[22] Find this analysis at: http://www.policymattersohio.org/living_wage.htm.

provide the public with needed services have the opportunity to earn enough to escape poverty themselves.

Sentencing Reform

About 48,000 Ohioans don't have the opportunity to contribute to our economy, support themselves, or support their families at all.[23] In fact, Ohio spends more than $24,000 a year on each of these residents, to prevent them from working, parenting, and taking care of themselves and their obligations.[24] We're speaking, of course, of inmates in Ohio's prisons. The state will spend $1.7 billion on the Department of Rehabilitation and Corrections in 2007, and those who are incarcerated will contribute little or nothing to our economy. Some of these inmates are violent offenders with problems far beyond the scope of an economic plan. But nearly a third (30.8 percent) of male offenders and more than a third (36 percent) of female offenders are non-violent offenders, whose most serious crime was drug-related. [25]

Illegal drugs can destroy individuals, families and communities. But we weaken our economy by removing drug users from society, paying so much to keep them in prison, and keeping them out of the workforce. Treatment programs are often both cheaper and more effective than incarceration. California's diversion program was found to save seven dollars for every dollar spent.[26] These programs are less expensive in part because they are more effective – offenders emerge less likely to re-offend and more able to enter employment.

Ohio has worked to improve outcomes and reduce incarceration. However, we are not doing enough given the costs to this state, both in outright corrections spending and in lost economic contributions. Non-violent offenders in Ohio who have substance abuse problems should receive treatment instead of incarceration.

III. On Ramps to the Middle Class: An Affordable Ohio

With good jobs, strong unions and a growing economy, Ohio's middle class grew sharply after the Second World War. Historically, the state has been a destination for

[23] Ohio Department of Rehabilitation and Corrections, November 2006 facts, available at http://www.drc.state.oh.us/web/Reports/FactSheet/November%202006.pdf , accessed November 2006.
[24] http://www.drc.state.oh.us/web/Reports/costperinmate/July%202004.pdf
[25] Black, Maureen, (Deputy Director, office of Policy of ODRC) Ohio Corrections Research Compendium, Volume II, April 2004, page 10, at http://www.drc.state.oh.us/web/Reports/compendium2004.pdf, accessed November 2006.
[26] U.S. Department of Health and Human Services Substance Abuse and Mental Administration, Abuse Treatments for Adults in the Criminal Justice System, 2005.

East Coast settlers moving west, African Americans seeking job opportunities outside of the south, and European immigrants after a piece of the American dream. While opportunity was hardly equally distributed, many families had reason to hope that they could own a modest home, find a job with a career ladder and benefits, and see their children do better than they had.
Rising home prices, falling or stagnant wages, soaring health care costs and growing costs for child care and other services have created a middle-class squeeze. Our sense of security, in particular, has plummeted. A forty-year trend toward increased commitment from workers to employers and vice versa unraveled in the last quarter of the twentieth century as layoffs, downsizing and plant closures became the norm. For workers who lose jobs, replacement positions are usually at lower pay rates – often much lower. Rates of employer-provided health and pension coverage declined markedly, leaving employees to fend for themselves in establishing these basics, or go without. Career ladders were often dismantled – a 2006 internal memorandum at Wal-Mart outlined the company's desire to avoid retaining employees because veteran workers cost a bit more.[27]

Governor-elect Strickland and the new legislature have a chance to loosen the middle-class squeeze, both by creating the conditions for better jobs, and by helping relieve some of the growing costs that families face.

A Healthy Economy

America has, in some ways, the best medical care on the planet. Foreign heads of state and people of means from all over the globe come to the U.S. for difficult surgery and other procedures. Americans are at the forefront of much cutting-edge medical research as well. Even within a nation that excels at high-end medical research and care, greater Cleveland stands out.

But as a system, the American medical structure performs miserably. We spend more than any other country on medical care that leaves many Americans excluded. Every other advanced industrial country does a far better job of ensuring that everyone can get care – and at lower cost. The United States spent 15 percent of its GDP on health care last year, more than any other developed country. Our expenditure of $6,102 per person was nearly twice as high as Canada, France, Australia or Britain.[28]

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[27] Greenhouse, Stephen and Michael Barbaro, "Wal-Mart Memo Suggests Ways to Cut Employee Benefit Costs," New York Times, October 26, 2006.

[28] Bernasek, Anna, "Health Care Problem? Check the American Psyche", New York Times, December 31, 2006 at http://www.nytimes.com/2006/12/31/business/yourmoney/31view.html.

In part because we leave so many uninsured and in part because we tolerate such high levels of poverty, the U.S. has great disparities in health care, a lower life expectancy, high infant mortality, and some very poor health outcomes. In 2003, the United States had the fifth highest infant mortality rate among OECD nations.[29] Compared again with Canada, France, Australia and Britain, each of which spends significantly less, we had lower life expectancy and higher infant mortality as a nation.

In addition to wasting tremendous resources on administration, competition, advertising and paperwork, our health care system is an economic drain because it allows some employers to avoid insuring their employees, making things more expensive for employers who do take on these costs. And the costs are soaring – premiums spiked 73 percent in just the past five years.[30] Coverage is also declining, which leads people into crises – bankruptcy stems, half the time, from being overwhelmed by medical costs.[31]

Our lack of a health care system leaves more than 45 million Americans (80 percent of whom are in working families) uninsured,[32] compromises job growth, escalates health costs to the world's highest, devours time and resources, and leaves employers, employees, patients, and the uninsured all dissatisfied. For businesses, it can be a drastic impediment to growth and stability.

When Toyota placed its newest North American production plant in Canada in June 2005, it cited worker education levels. But the fact that every Canadian gets free health care through the government made it much more efficient for the plant to employ Canadians than it would have been to employ Americans.[33]

Our economy is profitable enough to make sure that families have health insurance. National health insurance should be a top priority of the new Congress and the president. The best solution is to offer universal coverage and remove the anachronistic connection to the workplace. Each year, the percentage of employees getting coverage through work declines, and the costs of that care rise. In a labor market where adults are expected to change employers so often, linking insurance to

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[29] Organization for Economic Cooperation and Development (OECD) Health Data 2006 at www.oecd.org.

[30] If it's Broke, Fix It: A Progressive Response to Americans' Demand for Major Health Care Reform. Americans for Health Care & Center for American Progress. Survey Report, November 15-22, 2005.

[31] Physicians for a National Health Program. http://www.pnhp.org/news/2005/february/bankruptcy_study_hig.php

[32] Horn, Bernie, State Action, p. 207

[33] Krugman, Paul, "Toyota, Moving Northward", New York Times, July 25, 2005, at http://www.nytimes.com/2005/07/25/opinion/25krugman.html, accessed November 2006.

the employer is at best a logistical nightmare, and at worst a gap-filled system that leaves families uninsured despite work. Private insurance discourages preventive care, encourages getting rid of less healthy employees, and ensures that precious health care dollars are dumped into advertising, competing, legal struggles, and other expenditures that do nothing to improve health.

But we've waited too long already for national leadership.

We can take steps within our current system to increase the likelihood that workers have insurance. For example, the state should never subsidize employers like Wal-Mart who exclude so many of their employees from health coverage. Yet the state did provide development subsidies to Wal-Mart for building food distribution and eyeglass manufacturing and distribution centers several years ago. All development subsidies at the state and local level should be reserved for firms that offer health coverage to all full-time employees. Purchasing prescription drugs in bulk is another baby step that could slow the astronomical increase in this most rapidly-rising portion of health costs. Another creative idea is to provide a "pay or play" option for employers, which requires businesses to provide workers with health insurance coverage or pay into a government fund that will do it for them. We could also expand the scope of coverage of Medicaid and SCHIP (State Children's Health Insurance Program), so that more working people could access them.

But the true solution for Ohio and its neighbors is to work together to do what the federal government hasn't managed. Not only will we be healthier, we'll save money as a region, and help revitalize our economy at the same time.

Ohio must act now to confront the challenge of providing insurance to all of the state's citizens, funding it through a progressive tax on income and corporations, and controlling the skyrocketing costs of coverage.

Governor Strickland should convene a bipartisan summit of the leadership in New York, Pennsylvania, Ohio, Michigan, Illinois, Indiana and Wisconsin to consider anti-poaching agreements and pooled health care coverage. If this consortium of states could offer employers a system of universal coverage, firms would have a dramatic incentive to locate in this region.

Policy Matters has not done research on health care but others have. The Ohio chapter of Universal Health Care Advocacy Network (www.uhcanohio.org) and the Ohio-based Single Payer Action Network (www.spanohio.org) are two resources to learn more about the fight for universal health care in Ohio and the U.S. The health policy institute of Ohio (www.healthpolicyohio.org) is also a resource on this issue.

Caring for Children

Families, once able to count on a growing standard of living even if one parent cared for children full time, have now found that often all adults in the household have to work. In fact, Elizabeth Warren and Amelia Tyagi, in their book The Two-Income Trap, found that two-income families today are almost always worse off than single-income families of a generation ago. Although the average two-income family earns 75 percent more in income than a one-income family did in the 70s, it spends so much more on health care, child care, a second car and housing, that there is less discretionary money left for other things. Child care is one of the biggest levers tightening the middle class squeeze.

For many parents, working is the only option. This is true for single parents, who can't depend on a spouse. But it is increasingly true for married parents as well. It is imperative that Ohio kids in early child care be in high quality settings. These earlier years are the time of the fastest brain development and the time when children learn to trust and connect with other people. Not incidentally, high quality care also makes parents better able to work, knowing that their child is well cared for. Ohio made some efforts to do the right thing when it comes to child care, especially after federal and state policy added time limits and work requirements to income support programs. But we haven't stuck to that early commitment. In the late 1990s, Ohio increased its childcare spending sharply, using mostly federal money (Temporary Assistance to Needy Families (TANF) and the federal Child Care Development Fund). But we have since reduced our childcare spending, dropping far below what the federal government allows.[34]

Families up to 200 percent of the poverty line ($40,000 annual income for a family of four) should pay no more than ten percent of their early child care costs. The state should provide the remainder, using TANF money and other federal money when possible. Between 200 and 300 percent of poverty levels, subsidies from the state should phase out slowly, so that families don't face any steep cliffs where benefits drop off suddenly because of modest wage growth. This will support work, increase worker reliability, and improve the quality of early childhood care.

At the same time, Ohio should work to improve the compensation levels of child care providers, many of whom earn so little that their own families are in poverty. Under-compensation in child care means these caregivers must take on second jobs or scrimp on basics for themselves – hardly leading to the relaxed, secure professional that is

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[34] Sheridan, Richard, The Taft Record: What it Means for Ohio's Future, Center for Community Solutions, 2006, p. 28.

able to provide excellent care. We balance too much on the backs of low-wage service providers of all types, and child care is a telling example.

After School Care

More than six million school-age American kids aged five to fourteen regularly get by with no adult supervision.[35] More than two million of these kids are age eleven or below. This lack of supervision is associated with increased drug use, crime, and sexual activity. It also represents time when television or the internet is the babysitter; and kids aren't learning or exercising. After school care for elementary-aged kids need not have the adult-to-child ratios that early child care or school itself has and it need not have the same expense. But those under age eleven should not be left to fend for themselves in the hours between 3:00 and 6:00 p.m. Ohio should ensure that every public school can offer moderately-priced after-care programs. Families earning up to 200 percent of poverty should get some help with this basic need, again in a way that phases out slowly so that parents don't face financial cliffs if their earnings rise slightly.

For more research on child care, poverty prevention and other health, social and economic challenges, readers should turn to the experts at Center for Community Solutions at www.communitysolutions.com. This organization is a tremendous resource for research, advocacy and education on behalf of human services in Ohio.

Progressive Income Tax

Americans are able to earn and prosper in ways that hard-working people in many other countries can not, in large part because of the excellent public structures we've put in place in this country. Our school system ensures that employers can find educated workers; our network of rail, roads and bridges guarantees that products can be shipped; our law enforcement system prevents theft. Because of these and other public structures, firms find this to be an excellent climate in which to make a profit. In Ohio, those who do best under this system contribute back into the system, so that they and others can continue to gain from it. The progressive income tax is one of the best ways in which we accomplish that as a society. Those who earn the most are able to pay a larger proportion toward maintaining those public structures. They also often stand to lose the most if these structures erode.

Taxes are the main way we raise resources for the important services that the public sector provides. Like most states and the United States, Ohio has a progressive individual income tax. Higher income is taxed at a higher rate. This is a principle of fair taxation that dates back to the Enlightenment, endorsed by such thinkers as John

[35] Horn, Bernie, State Action.

Locke and Adam Smith. Most state and local taxes fall more heavily on low- and middle-income Ohioans; the personal income tax is the major tax that is based on ability to pay.

In recent years, Ohio's tax burden has shifted from corporations to individuals and from higher-income households to lower-income families.[36] This has reduced the taxes paid by the most affluent Ohioans at the expense of needed revenue and a fair tax system.

In 2005, the General Assembly reduced income-tax rates across the board by 21 percent over five years. Besides costing the state $2 billion in annual revenue, much of this reduction will go to Ohio's most affluent taxpayers. Fully 23 percent will go to the top one percent – those making over $274,000 a year – while the lowest three-fifths will get just 14 percent.[37] Even before the 2005 tax changes, low- and middle-income Ohioans paid a greater share of their income in taxes than wealthier Ohioans. Restoring the personal income tax on the affluent would make the tax system fairer and generate needed revenue for investments in education and other critical needs.

The legislature also approved a phase-out of the corporate franchise tax – Ohio's corporate income tax – and the tangible personal property tax, and replaced them with a new tax on gross receipts called the Commercial Activity Tax (CAT). While the CAT has some positive features, it does not generate the revenue of the taxes it replaces and further reduces the share of Ohio's taxes paid by business. By phasing out the corporate franchise tax, the General Assembly will make Ohio one of only six states in the country without such a tax. On a long-term basis, the change will significantly reduce revenue available to schools and local governments, as the CAT will not permanently replace revenue lost to them from the elimination of the tangible personal property tax.

Ohio should restore recent cuts in progressive taxes; reverse cuts in the individual income tax for the affluent; restore the corporate income tax, which is slated for elimination;[38] and review all existing tax breaks. Ohio's state and local tax system is stacked against low- and middle-income workers, who pay more of their income in

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[36] Schiller, Zach,Ohio's State and Local Taxes: The Dwindling Business Share, Policy Matters Ohio, May 2004. See http://www.policymattersohio.org/OhioBizTaxes.htm.

[37] Schiller, Zach and David Ellis Wealthiest Ohioans Gain Most from Proposed Tax Changes; Low- and Middle-Income Families, on Average, Save Little or Nothing, Policy Matters Ohio, Center for Community Solutions and Institute on Taxation and Economic Policy, March 7, 2005. See http://www.policymattersohio.org/Wealthiest_Ohioans_Gain_Most.htm.

[38] Schiller, Zach Strengthen, Don't Scrap, Ohio's Corporate Franchise Tax, Policy Matters Ohio, May 2005. See http://www.policymattersohio.org/Ohio_CFT_Study_2005_05.htm.

taxes than upper-income Ohioans do.[39] In violation of four Ohio Supreme Court rulings, it continues to rely heavily on the local property tax for funding public schools.

Recent research has confirmed that state economic growth and income are not a function of state and local tax levels.[40] The Institute on Taxation and Economic Policy (URL), the Center on Budget and Policy Priorities (www.cbpp.org), the Center for Community Solutions (www.communitysolutions.com), and United for a Fair Economy (www.faireconomy.org) are sources that can help Ohio make smart, fair choices in tax policy.

Earned Income Tax Credit

The federal Earned Income Tax Credit (EITC) is a refundable tax credit available to low- and moderate-income families with at least one employed person. Widely beloved by elected officials of all political stripes, the credit does more to lift low-wage families out of poverty than any other government program. In Ohio, more than 769,000 families making less than $37,000 receive the EITC, bringing more than $1.3 billion into the state. The credit varies per income level and number of qualifying children, but on average, the credit is $1,720 per household in Ohio. About 14 percent of Ohio households receive it.

Smart states have begun enacting their own EITCs to supplement the federal credit. As of October 2006, 21 states had their own EITC programs, ranging from five percent to 40 percent of the federal EITC depending on earnings and other factors. The majority of the credits are refundable, enabling families to not only have no tax liability to the state but also to receive a modest amount of return. A 20 percent Ohio EITC would provide more than 769,000 families with an average credit per household of $344, or $260 million total. Some of the costs of a state EITC can be funded, as in other states, with TANF dollars.

Ohio should put in place its own EITC to supplement the federal credit, compensate for a tax code that increasingly relies on sales taxes and other regressive taxes, and help working families financially.

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[39] Who Pays? A Distributional Analysis of the Tax Systems in All 50 States, Institute on Taxation and Economic Policy, Jan.7, 2003. See http://www.policymattersohio.org/pdf/who_pays_release.pdf.

[40] Honeck, Jon, State Economic Growth and the Public Sector, Policy Matters Ohio, September 2006. See http://www.policymattersohio.org/state_economic_growth_2006.htm.

Strengthen Unemployment Compensation

A crucial part of protecting Ohio's middle class is taking steps to ensure that working families do not fall into destitution as the result of what should be a temporary setback. Ohio's unemployment compensation system has been a life raft providing protection to workers pulled under by the tide of layoffs that has swept over the state in recent years. Between 2000 and 2005 it paid $7 billion in benefits to Ohio workers. While this provides essential support for families, economists agree it also benefits the broad economy. A study commissioned by the U.S. Department of Labor in 1999 found that each dollar of UC benefits produced $2.15 of increased economic activity, and reduced the severity of recessions.[41]

However, Ohio historically has covered fewer of its unemployed than the United States as a whole.[42] For the 12 months ended in September 2006, only 30 percent of unemployed Ohioans received unemployment benefits.

Ohio has restrictive eligibility provisions that reduce the number of people who are able to get unemployment benefits when they lose their jobs. Our earnings requirement to qualify for UC is one of the toughest in the country.[43] The recently approved increase in the state minimum wage will allow some additional workers to qualify who would not have previously. However, Ohio is probably still the only state in the country in which someone working at $9 an hour 20 hours a week will not qualify for unemployment compensation. The state also excludes many jobless workers seeking part-time employment who meet all of the other requirements of the program. And it is unique among the 50 states in reducing unemployment compensation checks by the full amount of Social Security received by jobless workers.[44]

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[41] Lawrence Chimerine, et al., Unemployment Compensation as an Economic Stabilizer: Evidence of Effectiveness over Three Decades, U.S. Department of Labor, Unemployment Insurance Occasional Paper 99-8, 1999. See page 16 of 2004 study.

[42] See U.S. Department of Labor at http://www.doleta.gov/unemploy/chartbook/chartrpt.cfm and, for data through third quarter of 2006, http://workforcesecurity.doleta.gov/unemploy/content/data_stats/datasum06/3rdqtr/DataSum_2006_3.pdf.

[43] Schiller, ZachOhio Excludes Many from Unemployment Compensation, Policy Matters Ohio, Feb. 8, 2006. See http://www.policymattersohio.org/ucomp_ohio_excludes_2006_02.htm The increase in Ohio's minimum wage will reduce the number of hours a minimum-wage worker has to work in order to qualify for benefits. However, at more than 29 hours in 2007, it remains higher in Ohio than in the vast majority of states.

[44] A Proposal to Protect Jobless Older Ohioans, adapted from the National Employment Law Project by Policy Matters Ohio, Jan. 17, 2006. See http://www.policymattersohio.org/social_security_offset.htm.

These restrictions unfairly exclude many unemployed Ohio workers from receiving needed benefits, or reduce what they get. A compromise proposal that would have at least partly remedied these problems was worked out last year by the Unemployment Compensation Advisory Council, the official panel that recommends changes in Ohio UC law. However, despite unanimous support by the management, labor and legislative members of the UCAC, it was never introduced in the General Assembly. The new legislature should improve upon and approve this proposal.

We have insufficiently funded our UC system, particularly in the 1990s when we could have afforded to build a larger cushion for hard times. Ohio's tax rates have been below those of the U.S. as a whole for the last decade even while we have experienced higher unemployment and loss of jobs than most of the nation. Now, if the economy weakens, the state faces likely borrowing to keep its fund afloat over the next several years. Today, Ohio taxes only the first $9,000 of each worker's annual wages, so that just a little over a quarter of wages in the state are taxable. Ohio should strengthen funding for its unemployment compensation system by raising the wage base on which taxes are levied and indexing that base to average wages in the state. We should improve eligibility for low-wage and part-time workers, eliminate the Social Security offset that penalizes older workers and improve the solvency of the system with stronger advance funding and a higher, indexed tax base. Modifying our current funding mechanism will enable us to build up greater reserves before future downturns. These changes will allow our UC system to perform its twin goals of helping jobless workers and the economy

More information on unemployment compensation can be found at the Policy Matters website and at the National Employment Law Project website at www.nelp.org.

IV. Building and Protecting Wealth

Lending is an integral part of what enables our economy to thrive. It lets people make smart investments that they wouldn't otherwise have the resources to make. Getting educated, buying a home, and establishing or expanding a business are all actions that can more than pay for themselves in the long run, but be tough to afford at the outset. Banks and other financial institutions can provide the funds needed to make these investments, be repaid with interest, and the lender and the borrower both win.

That's how credit is supposed to work and it allows great things to happen – it lets students get educated, families buy homes, entrepreneurs start companies, and established companies expand or improve facilities. But the system only works when borrowers are protected from exploitative practices. Historically, many credit practices were better regulated than they are today so that interest rates were more reasonable and loans were likely to be repaid. But as credit has been deregulated, there's been a large expansion in loans that are bad for the borrower. Some aspects of the credit market have improved – for example, minorities who were previously denied credit entirely may now be able to access loans, although often people of color face more problematic terms and are steered toward higher-cost products. But any progress has also been accompanied by an explosion in troubling practices. Interest rates are too high, other terms are unwise, borrowing is being done to pay for things that aren't investments, and people are borrowing against their equity.

More exploitative forms of credit – with sky-high interest rates and other bad terms – have proliferated in recent years, with sometimes disastrous results for borrowers. Predatory home loans, payday lending, lending against expected tax returns, and extremely high-interest credit cards, are all examples of credit gone awry. Borrowers end up paying much more than they should in interest, accumulating debt that can't be repaid, and losing their assets. Ohio's consumer protection laws have never been the strongest, but for the past 30 years the state has had a reasonable consumer sales practices act in place. In December 2006, legislators gutted this law by drastically reducing the ability to sue for damages. In addition to the recommendations below, this standard should be reinstated.

Payday loans

Some five million American families get payday loans each year and that industry has quadrupled in size in recent years.[45] Forthcoming research from Policy Matters looks at how payday lending shops have proliferated in Ohio. Workers ensnared by these operations can pay well over 300 percent APR for a modest loan – over $40 in fees for a short-term loan against a $300 paycheck, for example. Ohio law explicitly allows payday loans and we've even subsidized payday lenders with our economic development dollars.

There is more than one way to reduce these predatory practices. Regulating the loans is an obvious and simple solution. Fourteen states have acted to block exploitative payday lending. Georgia's path-breaking 2004 legislation does the most to protect workers who need an advance against their paycheck, although it still allows interest rates that would have been unheard of in previous generations.[46] Georgia now caps small loans at 60 percent APR, has strong penalties, and bars lenders from partnering with outside entities to circumvent state law. The Ohio legislature should enact similar limits.

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[45] http://www.stateaction.org/publications/agenda/2006/2006agenda.pdf, page 90.
[46] Ibid.

But the Ohio legislature has, until now, refused to put in place reasonable guidelines like this. If the legislature continues to resist these common sense measures, other elected officials can use more creative options. The state could beat these unscrupulous lenders at their own game by encouraging credit unions and other more legitimate financial institutions to offer short-term loans, or by establishing a revolving fund to lend against paychecks. Interest rates would be set at the reasonable levels that middle class consumers expect when they have to borrow – enough to cover costs, risks associated with this type of lending, and insurance, but much less than what exploitative lenders charge.

Predatory Home Loans

Every major religion, and American law from Colonial times on, has condemned usury, or charging of excess interest.[47] But in the late 1980s, a combination of a Supreme Court decision and congressional indifference led to a situation in which interest rates can far exceed anything that would have been permissible historically.

Home mortgage lending is no exception to the pattern of leaving consumers unprotected and making it nearly impossible for consumers to understand the credit practices that they're facing. Subprime loans have exploded, with high interest rates. Subprime loans have some advantages – extending credit to some higher-risk borrowers who might not qualify for a traditional loan. But about half of subprime borrowers should be able to qualify for a traditional mortgage.[48] This form of higher-interest lending increased ten-fold nationally over about the last decade. Black and Latino borrowers are particularly targeted for these problematic loans. Subprime loans become predatory when they include, in addition to high interest rates, elements like balloon payments (where initial payments are affordable but subsequent payments are not), prepayment penalties, high fees, practices that encourage repeated refinancing, and loans where the house is overvalued.

In 2006, Ohio took a giant step in the right direction by extending the consumer sales practices act to mortgage purchases, so that homebuyers in Ohio have the minimal protections we expect when we buy an iron or iPod. Unfortunately, during the December legislative session, outgoing legislators gutted the consumer sales practices act, capping non-economic damages and taking the teeth out of both the new predatory lending law and other consumer protections. Even with a stronger consumer law, many states do a much better job than Ohio does of regulating predatory lending. North Carolina, Arkansas, California, Georgia, Illinios, New Jersey,

[47] PBS Frontline interview with Harvard College Law Professor Elizabeth Warren, November 23, 2004, available at http://www.pbs.org/wgbh/pages/frontline/shows/credit/interviews/warren.html.
[48] This section draws from the Center for Policy Alternatives' State Action booklet, p. 254-256.

New Mexico, New York, South Carolina, Massachusetts and West Virginia have predatory lending laws in place – North Carolina actually prohibits the practice. Other states have weaker limits. An analysis of the North Carolina law found that exploitative practices were reduced, low interest rates continued, and subprime loans remained available.

The Ohio legislature should restore the 30-year-old ability to sue for non-economic damages. Then Ohio should take a cue from North Carolina by preventing abusive refinancing, giving homeowners the ability to defend their homes against foreclosure and limiting predatory practices. Practices that should be forbidden include balloon payments, pre-payment penalties, negative amortization (where principal balance increases because of flawed interest payments), and flipping (where loans are repeatedly refinanced, often with fees increasing each time). Learn more here at www.responsiblelending.org.

Prisoners of Plastic – Credit Card Debt

Many states once had strong laws in place to ensure that credit card interest rates were reasonable. But in 1978, the U.S. Supreme Court ruled that a national bank only had to follow the laws of its own home state in deciding what interest rates to charge customers living in other states. Consumers were no longer protected by their own state's credit regulation. This encouraged banks to congregate in states with weak regulation, which in turn encouraged states to lower their own standards, in order to try to lure financial institutions. This meant that national and state banks both could follow the same weak laws.[49] Consumers are paying the price. Between 1980 and 1999, credit card debt increased nearly six-fold, to $600 billion in 1999. After interest rates were deregulated, another Supreme Court decision removed restraints on penalty fees, which more than doubled in just the three-year period from 1995 to 1998, nationally. Interest rates now also often spike after one late payment. Credit card companies dropped their minimum payment requirements, encouraging consumers to carry more debt and pay more in interest. Marketing has grown much more aggressive – the industry increased the number of solicitations it sent out from 1.52 billion in 1993 to 5.01 billion solicitations by 2001, encouraging people to take out multiple credit cards.

Because of these Supreme Court decisions, Ohio can't easily solve this problem. Senator-elect Sherrod Brown and Senator George Voinovich could do much to protect Ohio consumers by proposing a federal law that limited interest rates to several percentage points above the prime interest rate, with adjustments for higher

[49] Draut, Tamara and Javier Silva, Borrowing to Make Ends Meet: The Growth of Credit Card Debt in the 90s, Demos, September 2003, p 33-36.

risk customers. Such legislation could also limit late payment fees to an inflation-adjusted amount, starting at $15 in 2007; increase minimum payment requirements to four percent as recommended by the Consumer Federation of America, and improve disclosure. [50]

At the state level, the extension of low-cost credit using a revolving public fund, described in the payday loan section, would provide an alternative to credit card debt in some situations.

Refund Rip-offs

Taxpayers often get their taxes prepared at paid tax preparation shops. This can mean expensive fees for preparation. In Cuyahoga County, an innovative coalition has emerged to provide free volunteer tax preparation assistance and reduce use of paid preparers.[51]

Overpaying to get taxes completed is bad enough, but some filers also – knowingly or not – get convinced to purchase loans against their anticipated refunds. These refund anticipation loans involve minimal risk for the lender – after all, they've seen the paperwork and completed the tax form and they know Uncle Sam is good for the refund. More outrageously still, the loan is often for just a week or two. Nonetheless, lenders charge hefty fees for these refund anticipation loans – interest rates can be 250 percent or higher on an annualized basis. More than 300,000 Ohioans, nearly half of EITC claimants, bought these loans in 2005, and a total of more than $39 million in refunds that should have gone to working families instead went to lenders. This doesn't even include the high cost some of these filers likely also paid to have their simple forms filled out.

States have begun regulating RALs by capping the rate and cost at which paid preparers can sell these loans. Nine states have such regulations in place. A recent federal law caps the APR of RALs and payday loans to military families at 37 percent. Other working families deserve the same modest protection. Other protections include better reporting by lenders to the Division of Financial Institutions, larger print and simpler language on the RAL forms, and providing proper punishments for violating customers.

This is a great solution and one that should get bipartisan support. After all, the Earned Income Credit was a bipartisan solution to the problem of low wages.

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[50] Draut and Silva, pp 37-43.

[51] Policy Matters provides technical support to this coalition with funding from the Cleveland Foundation. Learn more at http://www.refundohio.org/.

Legislators of both parties should be outraged when federal refund money meant for low-wage working families instead gets diverted to out-of-state companies. Aggressive consumer education is also needed on this front. Studies repeatedly show that tax filers may not even realize they're purchasing a loan – they often think that the loan fees and interest are simply part of the cost of tax preparation.[52]

If the revolving loan fund for paychecks is successful, it could also be marketed to tax filers when they truly need a short-term loan. In this case, when a worker really needed to get her refund on March 1 instead of March 15, she would have a non-exploitative place to go for that loan.

V. Strong Public Structures

Ohio's public structures have allowed young people to become educated, health problems to be managed, infrastructure to develop and business to thrive. The private sector can meet many needs well, but for public goods and services, the public sector is the most efficient and best approach.

In many areas, Policy Matters has found that privatizing public services didn't serve the state well. A 2000 study found that school districts that contracted out their school busing services ended up paying significantly more for pupil transportation than districts that kept the service in house, whether measured per mile or per pupil.[53] A 2001 study found that easy-to-manage inmates with dramatically fewer medical, disciplinary, and mental health needs were targeted to private prisons in the state, allowing them to artificially cut costs. This report also summarized other accounts of the troubled history of private prisons in Ohio that includes escapes, injuries, murders, inadequate medical treatment, security lapses, cost overruns, high levels of staff turnover, and contract violations.[54]

A 2002 report found that state of Ohio spending on services from outside vendors had skyrocketed over the previous decade, nearly tripling between 1991 and 2001. Despite heavy pressure on the state budget, the state had done little to scrutinize this spending trend or put systems in place to monitor outside contracting and ensure accountability.[55] More recently, a 2006 study found that Ohio charter schools

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[52] Wu, Chi Chi and Jean Ann Fox, Picking Consumers' Pockets, Draining Tax Relief Dollars, National Consumer Law Center and Consumer Federation of America, January 2005, available at: http://www.consumerlaw.org/initiatives/refund_anticipation/content/2005RALreport.pdf.

[53] Cassell, Mark, *Taking them for a Ride: An Assessment of the Privatization of School Transportation in Ohio's Public School Districts*, American Federation of State County and Municipal Workers, 2000.

[54] Hallet, Michael and Amy Hanauer, *Selective Celling: Inmate Population in Ohio's Private Prisons,* Policy Matters Ohio, May 2001.

[55] Schiller, Zach, Unmanaged Costs: Government Contracting by the State of Ohio, Policy Matters

operated by White Hat Management received $100 million in state funding in the 2005 fiscal year but did not report what was spent on instruction or textbooks. In its Life Skills schools, White Hat spent nearly half of its expenses on overhead or purchased services which were vaguely defined, and left the public in the dark about how public funds were spent.[56]

Studies by others have found terrible outcomes at Ohio charter schools. Recently, a study by an organization that supports charter schools admitted that 49 percent of Ohio's Charter Schools received failing grades in 2005.[57] Other research shows an even higher failure rating: a 2003 study conducted by the Ohio Education Association, which opposes private charter schools, found that 74 percent of charter schools were classified as academic watch or academic emergency schools. Only eleven percent of traditional public school districts are similarly classified.[58]

Other disasters related to privatization or contracting out of public services have been well-documented. A November 2006 report from Texas pilloried the state's outsourcing of welfare services.[59] The report found that, despite claims that hundreds of millions of dollars would be saved by outsourcing the system, administrative costs were not reduced and those who rely on state services had endured a difficult enrollment, long delays and at times benefit denial despite eligibility. Earlier this year, Texas asked state staff to resume responsibility for the program.

During the debate about social security privatization, Chile was frequently cited as an example of a successful private system. But the New York Times editorialized in December 2006 that the Chilean government will now inject a substantial government role into the system because workers have not accumulated adequate assets. The editorial argued, "The overarching problem for Chile — and the real lesson for the United States — is that private savings are not a substitute for a guaranteed core tier of old-age support…. As the debate unfolds anew in 2007,

Ohio, April 2002.

[56]Schiller, Zach, Limited Accountability: Financial Reporting at White Hat Charter Schools, Policy Matters Ohio, October 2006.

[57] "Turning the Corner to Quality." The Thomas B. Fordham Institute; The National Alliance for Public Charter Schools; The National Association of Charter School Authorizers. October 2006. http://www.edexcellence.net/doc/TurningtheCornertoQualityOH2006.pdf

[58] OEA Research Bulletin. Charter Schools Report 2003 v2.doc. http://www.ohea.org/gd/Templates/Pages/GDContentViewer.aspx?Content=2296&UseMimeType=1

[59] Hagert, Celia, Updating and Outsourcing Enrollment Public Benefits: The Texas Experience, The Center for Public Policy Priorities, November 2006.

another vital lesson to remember from the Chilean experience is that institutions, once dismantled, are not easily restored."[60]

The private sector can do a good job of delivering private goods, especially if strong public structures are in place to monitor product safety, environmental compliance, consumer protection and labor practices. But experiments in privatizing public goods and services rarely result in the promised cost savings and efficiency gains. In fact, the need for profits often makes the privatized service more expensive and less efficient. Employees are often paid less, reducing the economic development potential of whatever spending is being done, and concentrating benefits to a privileged few.

Instead of toying with privatization schemes in pursuit of elusive savings, Ohio should recommit to its public institutions – demanding the highest levels of service and accountability, and providing strong oversight, adequate funding, and good support. All laws – labor laws, environmental standards, consumer protection, tax assessments – should be vigorously enforced. This ensures a level playing field, sends the signal that compliance with the law is expected, ensures more adequate resources for the public sector, and protects Ohioans as they work, shop, eat, drink, breathe and go about their lives.

Conclusion

As a new year begins and new leaders take office in Ohio, we should pause to reflect on past accomplishments, consider current challenges, and resolve to create a stronger future. Ohio has historically been a state that invested in education and infrastructure, provided opportunity, constructed on-ramps to the middle class, built and protected its citizens' wealth and provided strong public structures. These investments –made when we had fewer resources and more uncertainty – led to a more prosperous, better educated, more productive and more sustainable Ohio. We've lost sight of some of that vision, but we know that it remains our tradition. The changes proposed in this report are not radical – many are being done in other states or other countries. They are compatible with a thriving economy, and they do much to strengthen that kind of economy. These ideas will help our state return to principles that have steered us for decades. It is time for Ohio to renew its commitment to prosperity, equity, sustainability, productivity, and a better tomorrow.

[60] "And Now a Word From Chile", New York Times, editorial page, December 31, 2006

Policy Matters Ohio is a non-profit, non-partisan research institute dedicated to researching an economy that works for all in Ohio. Policy Matters seeks to broaden debate about economic policy by providing research on issues that matter to Ohio's working people and their families. Areas of inquiry for Policy Matters include work, wages, and benefits; education; economic development; energy policy; and tax policy. Generous funding comes from the Joyce, Gund, Cleveland and St. Ann Foundations and the Economic Policy Institute. To those who want a more fair and prosperous economy... Policy Matters.

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