THE AMERICAN PROSPECT

Buckeye Budget Blues

Ohio has all the reform elements in place—except political will.

AMY HANAUER | February 1, 2010

In Ohio, decades of deindustrialization, a tax-cut strategy pursued with nearly equal zeal by both parties, and the deep recession combine to create a severe fiscal nightmare. There are some promising glimpses of momentum building for a smarter, more progressive approach. But despite a swing toward the Democrats in recent years, fundamental reform has yet to materialize.

Ohio faced a budget shortfall of $2.6 billion in fiscal year 2009 and a shortfall of $3.3 billion in fiscal year 2010. Last summer Gov. Ted Strickland and Ohio legislators cobbled together a deal that relied on much-needed federal fiscal relief to states, more than $2 billion in excruciating budget cuts, and a scheme to allow video slot machines at horse-racing tracks in this traditionally anti-gambling state. However, the Ohio Supreme Court said the gambling extension required voter approval through referendum, forcing lawmakers to play another hand.

Ohio Democrats, who took over the governorship in 2007 and the Ohio House in 2009, have mostly hewed to an anti-tax rhetoric and policy approach nearly as extreme as the Republican brand. Democrats have continued to phase in a Republican-passed tax-slashing plan that includes across-the-board income-tax cuts and replacement of two major business taxes, including our corporate income tax, with a system designed to bring in much less (which then failed to generate even that lower forecast). The new system relies on a commercial activity tax, which was supposed to bring in about half the revenue that the corporate franchise tax and the tangible personal property tax, both eliminated, had generated. There is now no general business tax in Ohio, and the new system is not bringing in the revenue its supporters had promised.

Before the recession hit, the initial cuts did not immediately prevent some important new investments—expanding preschool; holding higher-education tuition costs down; and broadening low-income children's eligibility for health insurance. But as revenues spiraled downward, from both the recession and the tax changes, it became clear that the budget tightrope could not be walked without decimating services or restoring needed revenue.

In a bipartisan fashion, the governor and lawmakers began deeply hacking at basic public infrastructure with cuts both shortsighted and cruel. "I downsized this government almost 5,000 fewer employees now than when I became governor," Strickland boasted in a December 2009 interview in*The Columbus Dispatch*. "I've done what Republicans have claimed they're going to do for decades and have failed to do."

Mental-health treatment and outreach to the homeless were cut. Elderly protective services, prescription assistance for the poorest and sickest, public transit, after-school programming, environmental inspections of coal mines, need-based college aid, and a program that had helped 14,000 kids prepare for kindergarten were also among the casualties. This type of slashing might defer some costs, but the piper will be paid later and larger in higher costs for remedial education, pollution and its cleanup, juvenile justice, nursing homes, and more.

The budget cuts dramatically weaken the bridge out of poverty and into the middle class. In some corners of the state, suicide rates have doubled. Counties have cut nurse visits to the severely disabled, dental care for the poorest children, and even indigent burial assistance. Until federal stimulus money was identified to rescue them, Lorain County had announced complete elimination of bus routes, leaving 300,000 residents with no ability to get around without a car.

Ohio has a dwindling force of social-service professionals, just as the frayed safety net is being stretched ever thinner to catch the increased number of families needing help. In Lucas County, home to Toledo, the Job and Family Services Department's staff plunged from 625 to 375 over a decade, while in the last year alone, claims for Medicaid, cash assistance, and food stamps have spiked—the last by 14,000 cases. In rural Van Wert County, a 50 percent jump in food-stamp eligibility clashes with 25 percent drops in staffing.

In December, Democrats and a few Republicans found the courage to oppose further budget cuts, temporarily halting the last phase of a scheduled income-tax cut. The move filled an $850 million hole in the budget. But even its advocates presented it as just a delay, failing to seize the moment to defend the value of the public sector.

Without additional federal fiscal aid next year, analysts predict a $7 billion or $8 billion fissure out of about $51 billion in the two-year budget covering fiscal years 2011 and 2012, just to maintain current services. This approximate 15 percent shortfall mirrors the gap in many states.

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But maybe Ohio can point to a better way. A small caucus in the Legislature has worked with the Progressive States Network to outline an approach that would better meet people’s needs and make the state budget and economy more sustainable. Two progressive caucus leaders have introduced a bill to restore the sensible 7.5 percent tax bracket that once applied to income over $200,000 and to create a new half-millionaire’s bracket of 8.5 percent for income over $500,000. Caucus members have also gotten behind investments in renewable energy, higher building-efficiency standards, moratoriums on home foreclosures, expansions in health-insurance coverage, stronger regulation of credit cards, more renter protection, and other innovations that invest in our economy and foster economic justice.

Additionally, a promising urban task force, co-chaired by Cleveland-area state Reps. Mike Foley and Sandra Williams, has issued a report that calls for fewer tax abatements, better intercommunity collaboration on business attraction, foreclosure remediation, more mass transit, home weatherization, and improved adult-worker retraining. These efforts could begin to revitalize Ohio’s beleaguered cities. Both the progressive caucus initiatives and the urban task force recommendations are mostly in the proposal stage, but they represent green shoots for a progressivism that has been dormant in recent years.

While organized labor is weaker than it once was in this industrial state, unions can still unite people around equity, as they demonstrated in a successful 2006 minimum-wage campaign. Community organizing is enjoying a modest resurgence with groups like the Mahoning Valley Organizing Collaborative effectively mobilizing citizens to push for equity. A state budget-advocacy coalition, the Campaign to Protect Ohio's Future, successfully repelled a 2005 attempt to amend Ohio's Constitution to limit state and local government spending. After the dismal 2010–2011 budget, this group has new members, new energy, and a new resolve. Leaders, who include many of the state's social-service providers, have vowed to reconstitute a revenue-raising effort for future budgets. If progressives join forces, backed by good research, the politics of tax-cutting and service-slashing might begin to look different.

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Further federal fiscal relief is an essential part of the solution. Without the aid received so far, even Ohio's relatively miserly 2010–2011 budget wouldn't have been possible. Help from Washington is essential to prevent layoffs, halt a further downturn, relieve need, and buoy private investment and spending. But states also need to bring their own tax systems back into alignment after years when a slashing mentality held sway.

In Ohio, that means reversing the unsustainable income-tax cuts passed in 2005 and putting in place the new top brackets described above. Together, these would generate more than $950 million a year, most paid by the very richest sliver of Ohioans. The previously mentioned changes in our corporate tax structure are costing Ohio about $1.6 billion a year, according to the Ohio Department of Taxation. We should adjust the rate of our business taxes so that they bring in as much inflation-adjusted revenue as our previous system did in 2005. This would provide significant revenue for the state, while still being (perhaps overly) generous to business, which already paid a smaller share in 2005 than it did a generation ago.

While federal fiscal relief and more balanced state tax policy are critical, they alone will not end the high--unemployment economy. And as long as unemployment is elevated, tax receipts will be too low. To restore employment, we need a muscular federal jobs program. The Economic Policy Institute has called for spending an additional $120 billion over the next three years for hiring unemployed Americans to fix and enhance our communities. This would create over a million jobs, raising family incomes and unleashing an army of us to help revive the economy.

A mix of these public jobs and other solutions could make America more energy efficient. The national Apollo Alliance sketches out the blueprint beautifully. Among the pieces: upgrading our outdated electrical grid, weatherizing public buildings, lending for and publicly funding weatherization for homes and commercial buildings—what President Barack Obama and others have dubbed "Cash for Caulkers." We also need more support for mass transit, which could promote a made-in-America supply chain in renewable-energy equipment and help factories retool for the clean-energy economy. And a more generous policy of need-based financial aid for learning beyond high school could pull other young, often unemployed workers out of the labor market until it recovers.

This great recession is killing state budgets, most cruelly in places like Ohio where the fiscal effects of the downturn are most extreme. Better policy could help Ohio and kindred states step back from the abyss—not only with our budgets in better balance and our public services intact but with a new approach that leaves us far more prepared for the challenges of tomorrow.