Conclusion and Recommendations

This report shows that in the twenty-four months following the start of the 2001 recession, Ohio lost 3.3 percent of its overall employment and 12 percent of its manufacturing jobs. Unemployment has risen, and while wages had not fallen by the end of 2002, family income had. Ohio's job loss is worse than the nation's and worse than that following the 1990-91 recession. How can Ohio speed recovery and avoid such lingering lethargy in the future?

Just as northern Ohio residents could be better equipped for future blackouts, the state must be more prepared for future economic power outages. In the heady 1990s, we cut taxes, slashed unemployment fees paid by employers, and failed to build a sufficient rainy day fund or invest enough in educational equity, higher education and worker training. When the recession hit and jobs began hemorrhaging while needs climbed, we were caught with few savings and big expenses. This is a case study in how not to prepare for a downturn.

Since 2001, we've taken many steps that can deepen a recession. We cut some spending, which makes the economy contract. We raised regressive taxes and while tax revenue was sorely needed, progressive taxation does less economic damage. We laid off state workers, leaving people without jobs and with less money to spend in their communities. Ohio needs to light the candles that will get us through this power outage and invest in batteries, flashlights and other essentials to get us through the next one. Here are five ways to start:

1. Improve Long-Term State Fiscal Policy - Ohio should restore its shrinking corporate franchise tax, increase the rate paid on the top income tax bracket, and, as Governor Taft proposed, extend the sales tax to cover services. These funds should be used to fund important programs and, as the economy recovers, build a deep rainy day fund, giving the state resources for economic stimulus when the economy gets sluggish. We should not use increased revenues in good times as an excuse to slash taxes. Revenue sources that spike during booms should be tapped, but not in a way that leaves us stranded when they disappear. So starting now, and when the recovery really happens, we need to change long-term fiscal policies.

2. Stimulate the Economy When it Gets Sluggish - A recession and its wake is a great time to invest in capital spending projects, for which the state is permitted to borrow money. Interest rates are low, borrowing is cheap, and construction projects can get people working and provide consumers with cash to be re-spent in their communities. Ohio is doing some of this already with its school facilities renovations. But a recession is a good time to expand brownfield remediation, construct energy-efficient housing, and ensure that sufficient private investment is being made in the electrical power grid.

3. Maintain Government Spending - Ohio, like states around the nation, sliced parts of its budget when state tax revenues began dropping. But cutting spending has a "pro-cyclical effect" - it depresses the economy right when it needs stimulus and can make the recession worse. Cutting public spending means laying off workers and shrinking services that may be needed more than ever in the downturn. Of course, if a state has raided its rainy day fund during good times, then it has to either raise taxes or cut spending when the economy loses

speed. Neither is desirable at those times, but cutting government spending curtails the economy much more than a progressive tax increase.

4. Expand Supports for Those in Need - Lost jobs, lowered incomes, unpayable mortgages, and too many debts all become more common in a recession and its wake. Providing supports for those hit by these hardships helps families weather the hard times and keeps money flowing to stimulate local economies. There are proven examples and new innovations to help people survive slumps. Here are four Ohio should embrace:

    a. Expand Unemployment Insurance. UI is often referred to as the "first line of defense" in a recession, both for providing income support to laid off workers who need assistance, and for boosting and stabilizing the economy. A recent study commissioned by the U.S. Department of Labor concluded that in the last five recessions, without UI, 15 percent more GDP and 131,000 more jobs would have been lost, nationally. The study also found that $1.00 in UI boosts GDP by $2.15[20].

    b. Ensure that Ohioans are Claiming Existing Federal Assistance. With little cost to the state, we could make certain that the Earned Income Tax Credit is filed for, food stamps are claimed, Medicaid is utilized, and other federal sources are fully tapped to bring needed money to Ohio families and communities.

    c. Innovate to Prevent Recession-related Catastrophes. Foreclosure prevention funds in Pennsylvania allow the government to lend a strapped borrower money for six months to maintain mortgage payments[21]. Massachusetts has subsidized COBRA payments to maintain health insurance for laid-off workers. Such innovations can avert family disasters and keep communities solvent.

    d. Invest in Human Capital. A recession is a good time to return to school or training. Students can ride out the time when jobs are scarce and be better prepared for future openings. College enrollment has increased in Ohio, but higher education funding has not kept pace. The state system for training displaced worker is lacking. Investing in education and training for Ohio workers will put the state in position to recover from the downturn.

5. Demand Federal Fiscal Relief - During a recession, the U.S. government should provide federal fiscal relief to the states. While national policy should have been focused on assisting those who had lost their jobs or seen incomes drop, it was instead centered on tax cuts for the wealthy. Such breaks do little to stimulate the economy and nothing to relieve need. Now is a time when federal resources should be used to get the power back on around the nation.

[20] "Unemployment Insurance as an Economic Stabilizer: Evidence of Effectiveness Over Three Decades", by Lawrence Chimerine et al.

[21] For more on PA's program, see www.phfa.org/programs/HEMAP. For more on the federal Home Emergency Loan Program (HELP), instituted in the 1991 recession, see www.financialpolicy.org. For more on MA's medical security act, look under publications at www.detma.org.