A REPORT ON OHIO WORKERS, FROM POLICY MATTERS OHIO

STATE OF WORKING OHIO, 2003
……IN BRIEF

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From March to November 2001, the United States was officially in a recession, with declining economic growth. Since then, the national recession has been declared over, but many economic indicators remain troubling for Ohio and the nation. This brief version of the 2003 edition of *The State of Working Ohio* summarizes data on Ohio's economy and the effects of the recession. To download the full 28-page *State of Working Ohio 2003*, go to *www.policymattersohio.org/SOWO-03.htm*.

EMPLOYMENT AND GROSS STATE PRODUCT

Payroll employment declined by 3.3 percent in Ohio and by 1.8 percent in the nation between March 2001 and 2003. This record is worse than during what was termed the "jobless recovery" of the early 1990s. Twenty-four months after the 1990-91 recession, payroll employment had declined by 0.9 percent in both Ohio and the U.S. Usually, by two years after a recession's onset, the economy is adding jobs. Table 1 compares the 2001 recession and recovery to the 1990 recession and recovery.

Table 1
Total Payroll Employment
24 Months After the Start of the 1990 and 2001 Recessions

		Start of Recession	24 Months Later	Payroll Change	Percentage Change
Ohio	1990 Recession	4,895,700	4,851,200	-44,500	-0.9%
	2001 Recession	5,532,200	5,347,200	-185,000	-3.3%
U.S.	1990 Recession	109,529,000	108,537,000	-992,000	-0.9%
	2001 Recession	131,690,000	129,270,000	-2,420,000	-1.8%

Source: Economic Policy Institute analysis of Bureau of Labor Statistics Current Employment Statistics (BLS-CES) data.

Ohio's percentage payroll employment declined more than that of all but six states. In absolute numbers, the 185,000 jobs that Ohio lost ranked third behind only California and New York. After the 1990 recession, Ohio ranked twenty-first in percentage of jobs lost and eleventh in number of jobs lost.

Between 2000 and 2001, Ohio's gross state product declined 0.9 percent, worse than in any year since 1990-91 and worse than in all but six states. The gross state product of the U.S. grew by 0.4 percent during this period. Ohio's recent decline is similar to that of the 1990-91 recession (1.0 percent), but not nearly as bad as during the 1981-1982 recession (5.5 percent).

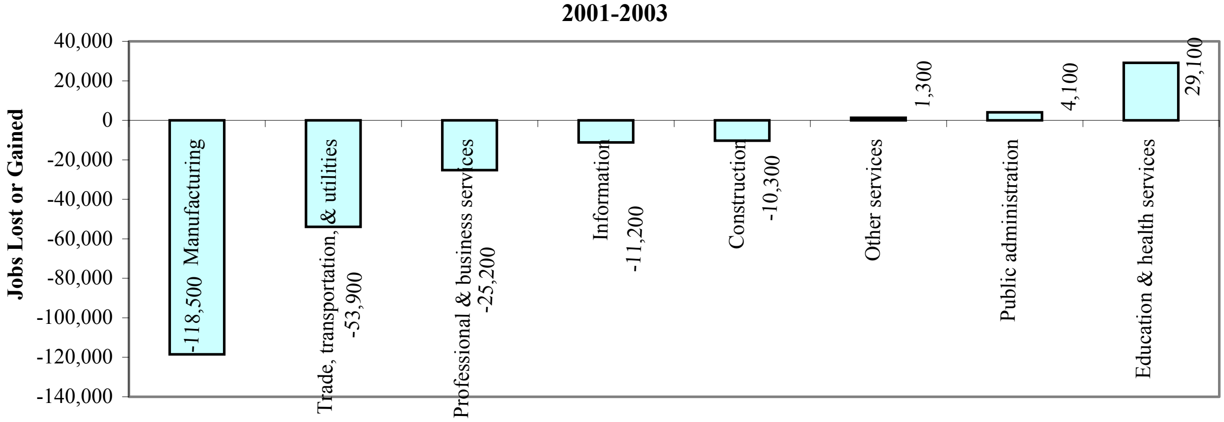
JOB SHIFTS

Much of Ohio's job loss was in manufacturing. The state lost 118,500 manufacturing jobs between March 2001 and March 2003, more than in all other sectors combined. This constituted 12.1 percent of Ohio's manufacturing jobs, ranking it twenty-third among states. Yet because manufacturing makes up a larger percentage of total jobs in Ohio (only six states had a higher percentage of manufacturing jobs in 2001) and due to its large population, a 12.1 percent loss meant that Ohio lost more manufacturing jobs than all but two states. Only California, with a population nearly three times that of Ohio, and Texas, whose population is nearly double Ohio's, lost more jobs than Ohio did.

Manufacturing job decline was already occurring during the relatively strong economy of the 1990s. Many analysts consider manufacturing job loss to be a structural issue, related to ongoing changes in our economy, rather than a cyclical issue, related to the weak business cycle. Other sectors with big losses were Trade, Transportation and Utilities (53,900) and Professional and Business Services (25,200).

Figure 1 displays job loss by sector in Ohio, using new industrial classifications known as the North American Industry Classification System (NAICS). The figure shows sectors with a change of more than 1000 jobs between 2001 and 2003. Downward-facing bars depict sectors that experienced job loss while the three small upward-facing bars depict sectors that gained jobs. As is clear, manufacturing job loss more than doubled the loss in any other sector, and the losses in manufacturing; trade, transportation and utilities; professional and business services and information dwarf the gains in education and health services, the only sector to experience meaningful job growth. Ohio's experience differed from other states in the weak job gain in other sectors. Every state lost manufacturing jobs in the twenty-four months after March 2001, but most states gained more in other parts of their economy.

Figure 1: Changes in Ohio Employment for sectors with more than 1000 jobs lost or gained 2001-2003



Source: EPI analysis of CPS data.

Manufacturing job loss is particularly problematic because these jobs pay higher wages to non-supervisory workers than other sectors do, especially those with large numbers of workers. Using the old Standard Industrial Classifications, non-supervisory manufacturing jobs paid $714 weekly in 2001, compared to $263 in retail trade, $461 in health services and $448 in business services. The construction and transportation industries paid more, but employed fewer people.

In 1983 more than a quarter (25.1 percent) of Ohio workers and more than one fifth (20.1 percent) of the nation's workers were in unions. In less than twenty years Ohio union density plunged more than eight percentage points to 16.7 percent and the nation's rate dropped 6.9 percentage points to just 13.2 percent of the workforce.

Income, Wages, and Poverty

New household income numbers from the Current Population Survey show a 2.5 percent drop in inflation-adjusted median household income between the years 2000-01 and the years 2001-02 in Ohio. The income of the typical household fell by more than $1000 from $43,656 in 2000-01 to $42,567 in 2001-02. Ohio was one of 13 states to see a statistically significant decline in this indicator. Over the same period, national household income dropped by 1.7 percent.

Although household income has dropped, the economic downturn had not caused dramatic wage decline in Ohio by the end of 2002. For some workers, inflation-adjusted wages rose through the end of that year. Both low-wage (those earning more than 20 percent of workers) and high-wage (those earning more than 80 percent of workers) had modest wage growth between 2000 and 2002. Workers at the median had stagnant wages between 2000 and 2002. Preliminary results from 2003 indicate that wages may have begun to drop in Ohio for all three categories, although the change is not statistically significant.

Increasing education levels is one way to improve wages and incomes. As Figure 2 shows, men earn more than women and whites earn more than blacks at every educational level in Ohio. However, all demographic groups see solid wage increases with additional education. For every demographic group, those with a Bachelor's degree or more earn more than twice as much as those without a high school degree. According to the Board of Regents, Ohio ranks 39th in the nation in the percentage of the population with a Bachelor's degree (17%).

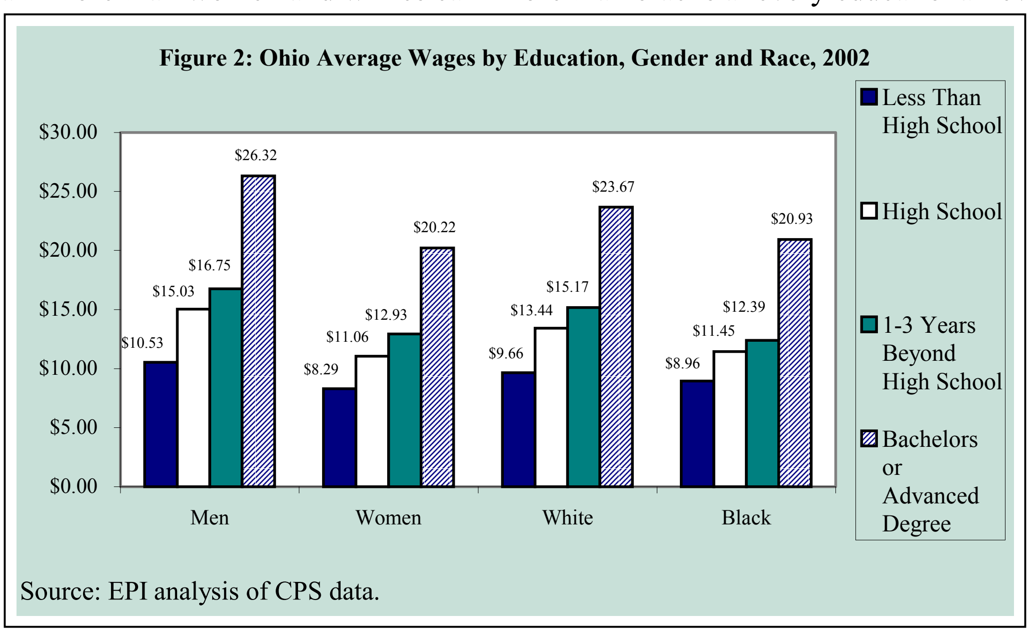
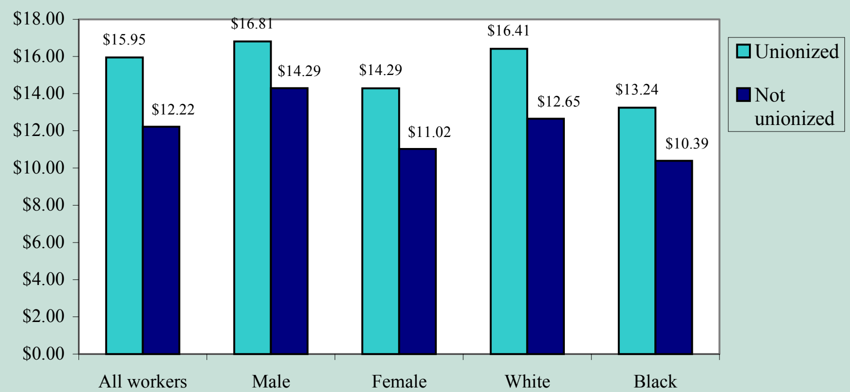


Figure 2: Ohio Average Wages by Education, Gender and Race, 2002

Source: EPI analysis of CPS data.

Unions have a powerful effect on wages in Ohio, particularly for female and black workers. Workers in a union earn 30.5 percent more ($15.95) an hour than those not in a union ($12.22). Figure 3 gives a sense both of the benefits of unionization to workers and of the disparities that persist between men and women, and blacks and whites in the workplace.

Figure 3: Union Premium by Race and Sex in Ohio, 2002



Source: EPI analysis of CPS data.

In 2002, an Ohio worker at the 90th percentile earned $27.12 an hour, more than 3.9 times what a worker at the tenth percentile earned ($6.95). The top twenty percent of U.S. households' income was 14.4 times that of the bottom twenty percent in 2001, up from 10.5 times as much in 1979. The top five percent of households' income was more than 25 times that of the bottom twenty percent, up from 15.6 times as much in 1979.

More than one in five workers earned less than needed to bring a family of four above the poverty line ($18,244) with full-time, year-round work in 2002. According to the American Community Survey (ACS), more Americans lived under the official poverty line in 2002 (12.4 percent) than in 2001 (12.1 percent). A larger jump from a lower starting point occurred in Ohio, were 11.9 percent of people lived below the poverty line in 2002, up from 11.1 percent in 2001, according to the ACS.

Unemployment

In 2002, Ohio's unemployment rate reached the highest annual average since 1993, 5.7 percent, up from 4.1 percent in 2000. Some analysts argue that actual unemployment may be higher than this, due to survey issues. Average annual unemployment was worse in years following previous recessions -- 7.2 percent two years after the July 1990 recession began and a now unthinkable 12.5 percent one year after the July 1981 recession began. One reason that unemployment rates are not as high as they have been, is that they were extremely low at the end of the Clinton Administration. In January 2001, when Bush took office, the monthly unemployment rate in Ohio was 3.9 percent. It fell to 3.6 percent by March 2001, when the recession started, although most analysts agree that the March 2001 rate was too low to be accurate. By August 2003, the most recent monthly data available at the time of publication, the rate was 5.8 percent. Looked at that way, the unemployment rate has spiked about 50 percent.

Unemployment rates were worse for certain demographic groups in 2002. Black men (10.6 percent) and workers without a high school degree (13.1 percent) were most affected, but joblessness climbed for every demographic group examined. In 2002, 35.1 percent of Ohioans and 42.4 percent of Americans exhausted state unemployment benefits before finding new jobs, the highest such Ohio rate in 19 years.

Conclusion and Recommendations

How can Ohio and the nation speed recovery and avoid such lingering lethargy in the future?

In the 1990s, we cut taxes, slashed employers' unemployment fees, and failed to build a sufficient rainy day fund or invest enough in educational equity, higher education and worker training. When 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 contracts the economy. 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 change its policies if it wants to better survive future economic downturns. 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 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 slows. We should not use increased revenues in good times as an excuse to slash taxes.

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 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.

4. Extend Supports to 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 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:

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a. Expand Unemployment Insurance. UI is the first line of defense in a recession, providing income support to laid off workers who need it, 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.

b. Ensure that Ohioans Claim Existing Federal Assistance. The state should ensure that people tap the Earned Income Tax Credit, food stamps, Medicaid, and other federal sources, 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. 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. But Ohio higher education funding lags behind demand. 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. should provide federal fiscal relief to the states. Instead, this administration gave massive tax cuts to the wealthy. Such breaks do little to stimulate the economy and nothing to relieve need. Instead, demand that federal resources be used to get the economic power back on around the nation.

These conclusions are part of Policy Matters' vision for an economy that values workers. Others may endorse a different approach, but no solution can be found without a good understanding of how our economy works and a lively debate about how to bring equity and prosperity to Ohio. Help start the discussion by inviting us to present this data to your organization or group. Contact Policy Matters at 216-931-9922.

Policy Matters Ohio is a non-partisan policy research institute, on the web at www.policymattersohio.org. The 28-page State of Working Ohio 2003, from which this summary report was drawn, is available at that site, as are more than 40 other reports on issues facing working families.

Policy Matters funding comes primarily from the George Gund Foundation. The St. Ann Foundation provides special support for the State of Working Ohio. For assistance with this report, we owe thanks to Libby Perl, Dana Williams and Jeff Chapman. This report is based on government data.