SECURING OHIO'S FUTURE

JOBS POLICY PAPER

While Republicans and Democrats found very little to agree on during the 2016 election, both sides did come together on at least one issue: America needs more high paying, quality jobs. Their strategies for how to do so may differ, but poll after poll showed voters of both parties identifying the economy as their top concern. In Ohio, the story is no different. While the state has rebounded since the Great Recession, there is no doubt that more can be done to further foster job growth and higher wages, so all Ohioans have the means to provide for their families.

At the peak of the Great Recession, Ohio's unemployment rate was over ten percent, higher than the national average and the highest it had been in over twenty years. In the eight years since, Ohio has experienced a great recovery, adding nearly four hundred thousand jobs and cutting the unemployment rate to 4.9 percent at the end of 2016, nearly on par with the national average[1].

While this is no doubt an improvement, these unemployment figures do not paint the full picture. The number of Ohioans employed still has not returned to pre-recession levels, and the pace of job growth has slowed in recent years[2]. In their January employment news release, the Ohio Department of Job and Family Services noted that monthly job growth in 2016 had slowed overall and in particular, private sector employment grew at under 1%, down from nearly 2% the year before. At the same time, Ohio has seen subpar population growth and the state's median household income remains below the national average[3].

Addressing this issue will be the most important task facing Ohio's next governor, but unfortunately there is no silver bullet solution. Instead, Ohio must consider a variety of policy options all designed to foster job growth. These strategies can generally be divided into three categories: structural reforms, generalized business reforms, and targeted reforms. Within these categories are several specific actions the state can take, each with its supporters and detractors.

In each instance, Ohio's policies are best viewed in comparison to its neighbors: Indiana, Michigan, Kentucky, West Virginia, and Pennsylvania. These states provide direct competition to Ohio for businesses seeking to relocate or expand operations and for the workers looking to fill these jobs. While policymakers may disagree on how to do so, Ohio lawmakers hopefully

---

[1] United States Department of Commerce, Bureau of Economic Analysis.
[2] United States Department of Labor, Bureau of Labor Statistics.
[3] United States Censure Bureau, Population and Housing Unit Estimates.

agree that Ohio should strive to become the most competitive state in the region and comparing Ohio's enacted policies to its neighbors and their results will help drive Ohio's lawmakers towards a more competitive jobs landscape.

Considering structural reforms, the two most important topics to review are the state's taxes and the regulatory framework. When businesses look to start or expand operations, one of their first considerations is finding a location that will best suit their needs. Routinely, states that foster a business-friendly tax and regulatory landscape see increased growth, while states with onerous taxes and regulations see businesses relocate. It is no coincidence that nearly all the states with lower than average population growth also have some of the most burdensome tax and regulatory regimes in the country. According to the conservative Tax Foundation think tank, Ohio was ranked the 45th best business climate in the nation, by far the worst amongst its surrounding states, thanks to what they described as an overly complicated tax system[4].

Tax reform generally focuses on two key principles: code simplification and rate reduction. According to many tax experts, simplifying the code and reducing tax rates encourages tax compliance, reduces time wasted filing taxes, and results in more jobs, higher wages, and lower prices for consumers. However there is not uniform agreement that cutting taxes will create jobs. The Center on Budget and Policy Priorities, a left-leaning think tank, contends that state and local taxes are a small expense for most corporations and the revenue lost by cutting these taxes could strain a state government's ability to fund services businesses rely upon, like roads and schools[5].

Although there is some disagreement on the efficacy of tax reform as a means to create jobs, policy analysts do agree that excessive regulations hinder economic growth. According to the National Governors Association, one of the top concerns amongst small business owners is the complexity of their state's regulatory regime. Streamlining regulations allows businesses to focus their time on growing their business, rather than on needlessly complicated red tape. This increased transparency and stakeholder participation in the rulemaking process helps to provide businesses with the regulatory certainty they need to continue driving the economy and creating jobs.

Beyond these structural reforms, there are several general economic development reforms Ohio should consider in order to grow jobs: licensing reform, job training and education, and compulsory unionism reform. Much like regulatory reform, simplifying the process for acquiring an occupational license reduces barriers to entry and will allow Ohioans to spend less time and money trying to acquire a license and more time getting to work. In most states, a license is required not only to practice advanced professions like lawyers and doctors, but also for dozens of low to moderate income occupations like barbers, massage therapists, and cosmetologists. For some of these jobs in Ohio, the licensing requirements take hundreds of hours and cost thousands of dollars – time and money many do not have, making it impossible for some Ohioans to achieve their career goals.

---

[4] Tax Foundation, "2017 State Business Tax Climate Index."

[5] Center on Budget and Policy Positions, "Cutting State Corporate Income Taxes is Unlikely to Create Many Jobs."

Ohio's occupational licensing system not only creates barriers to entry for Ohio workers, but also puts the state at a competitive disadvantage compared its neighboring states, driving jobs out of Ohio and across state lines. According to the Institute for Justice's "License to Work" study, Ohio has more burdensome licensing requirements than all of its neighbors except Kentucky[6]. Last year, the Ohio Senate considered a bill that would provide legislative oversight of occupational licensing boards in order to prevent unduly burdensome licensing requirements. Although that measure did not become law, it marks a step in the right direction to make Ohio's licensing process more competitive, thereby increasing access to jobs throughout the state.

While licensing reform will make it easier for qualified candidates to pursue their careers, Ohio must also ensure that the next generation is being properly trained to enter the workforce. The US Department of Education predicts that the number of job opportunities in the Science, Technology, Engineering, and Mathematics (STEM) fields will nearly double those in non-STEM based jobs, while commanding almost 30% higher salaries. In Ohio, the state established the Ohio STEM Committee in 2007, which helped build a network of STEM schools and programs throughout the state. In addition to tailoring education to meet the needs of a new economy, job training programs that focus on the skills workers need now and will need in the future help to provide employers with a deeper pool of potential employees while increasing opportunities for Ohioans entering or reentering the workforce. Last year, Governor Kasich ordered his Executive Workforce Board to do just that, and the Board's report included a handful of recommendations largely focused on strengthening the links between chambers of commerce, economic development organizations, and JobsOhio with K-12 schools and community colleges. The goal of these recommendations is to better connect businesses with their local workforce, so schools and job training centers can cater their efforts to the evolving demands of the 21st century economy.

While focusing on the STEM fields is critical, Ohio must also address another key sector of the jobs market that is often overlooked: middle-skill jobs that require more education than a high school diploma but that do not require a four year degree. These jobs make up roughly half the entire labor force in the United States according to the Bureau of Labor Statistics, yet in many states, there are not enough workers trained to fill these needs. In Ohio, middle-skill jobs account for 55% of the labor market, yet only 47% of the state's workers are qualified to fill them[7]. Additionally, this gap is expected to widen in the next decade: a large portion of the workers currently filling those jobs are from the "baby boomer" generation, and as they reach retirement age, Ohio companies will struggle to find qualified employees to take their place. In his final budget request, Governor Kasich voiced support for funding workforce development programs that will help train Ohioans specifically for these jobs, by emphasizing skills training, apprenticeship programs, and other efforts to build job readiness for the next generation. It will be critical for Ohio's next Governor to look for additional ways to bridge this skills gap in the coming years.

The final general economic development idea that Ohio should consider is the elimination of compulsory unionism, otherwise known as implementing right to work legislation. By definition, right to work laws prohibit workplaces from requiring employees to join the union or pay union

---

[6] Institute for Justice, "License to Work."
[7] National Skills Coalition, "Middle Skills Jobs by State, Ohio."

dues. These laws do not prohibit employees from electing to join the union, they merely prevent mandatory unionism as a condition of employment. Although an increasing number of states, including four of Ohio's neighbors (Kentucky, Michigan, Indiana, and West Virginia) have enacted right to work laws in recent years, the idea remains highly controversial, particularly amongst organized labor groups.

Supporters of right to work legislation cite numerous economic studies that show greater economic growth in right to work states as compared to non-right to work states, including one 30 yearlong study that showed economic growth of 71% in right to work states, compared to just 32% in compulsory union states. Additionally, supporters argue that businesses will often cite the presence of right to work laws as a key factor when deciding where to start or expand operations – one of the reasons for the manufacturing boom in the Southeast has been attributed to every state in the region having right to work laws.

Given these statistics and the growing trend towards right to work nationwide, Ohio has begun to consider the idea in the statehouse. Earlier this year, Ohio House Republicans introduced right to work legislation, but it faces an uphill battle: in 2011, voters overwhelmingly repealed a bill to restrict public sector unions after it was signed into law by the Governor. Although there are some questions as to whether right to work is the sole cause of the positive economic growth seen in states where it has been enacted, Ohio should carefully consider the issue: in the Forbes 2016 listing of the Best States for Business, 8 of the top 10 and 14 of the top 20 states have right to work laws[8].

Beyond these generalized reforms, there are several Ohio-specific and sector-specific policies that lawmakers should consider to increase job growth in Ohio. Both JobsOhio, the private nonprofit economic development agency established by Governor Kasich, and Ohio Third Frontier, the taxpayer funded state program specifically targeting startups and technology companies, have been responsible for creating thousands of jobs across the state, although there are some questions about their future. For JobsOhio, opponents have criticized the lack of transparency in its operations, combined with what they believe are questionable statistical methods that they allege paint a rosier picture than what is in reality merely corporate welfare. The program's supporters however contend that JobsOhio has created tens of thousands of jobs and prevented numerous companies from relocating out of state. As for Third Frontier, the program started with a $1.6 billion state investment in 2002 and was then reauthorized for another $700 million taxpayer approved bond in 2010. That funding was expected to last through 2015, but there is still enough money remaining for the program to continue through at least 2019. The question then becomes, should Ohio's next governor push to reauthorize a new round of taxpayer funding for Third Frontier or will Ohio be better off saving the money, particularly if the state's finances remain tight?

While these two Ohio programs have created thousands of jobs, it is also important to look at policies impacting the job creating ability for some of Ohio's leading industries: manufacturing, energy, and infrastructure. Although nowhere near its mid-twentieth century dominance, when manufacturing jobs employed half the state, in 2016 nearly 20% of Ohio's GDP came from manufacturing, per the Ohio Development Services Agency, which is still the largest single

---

[8] Forbes, "Best States for Business 2016."

sector of the state's economy. Beyond tax policy which affects all sectors of the economy, manufacturing is greatly impacted by regulatory and trade policies. Manufacturing, by its nature, is one of the highest regulated industries in the country. In addition to the thousands of pages of federal regulations manufacturers must comply with, there are additional state requirements that further complicate matters and as a result, slow job growth. As one of the biggest concerns for Ohio's largest economic sectors, streamlining the regulatory process so that businesses have a sensible and predictable regulatory framework will be one of the key issues for Ohio's next Governor. Additionally, as President Trump considers renegotiating NAFTA, Ohio's next Governor should push to ensure that any changes will boost manufacturing in the state and create more jobs in Ohio instead of abroad.

In addition to these manufacturing specific policies, Ohio's next Governor will have to tackle issues facing another key sector of the economy, energy and utilities. Domestic energy production creates jobs, lowers operating costs, and reduces America's dependence on foreign oil. According to a National Association of Manufacturers poll, 84% of Ohioans support increased energy development in the United States, with strong support from Republicans and Democrats alike, and the reasoning is simple: energy development is critical to job growth in Ohio. The US Chamber of Commerce released a study last year showing that if fracking were banned in Ohio, the state would lose nearly 400,000 jobs and Ohio households would see a $4,000 increase in their annual cost of living.

While energy policy is largely governed by federal law, there are two key state issues for the next Governor to address. In his two most recent budgets, Governor Kasich has proposed increasing the severance tax, which is the tax paid on extracting oil and gas in Ohio. While Kasich has touted this tax increase as a way to raise revenue that offsets tax cuts elsewhere, the Republican-controlled legislature has blocked these proposals. The same fight is taking place across the border in Pennsylvania, where the state's Democratic Governor has failed three times to enact the state's first severance tax. In both instances, the Governors have argued the tax will generate needed revenue while making sure the energy companies are paying for the right to remove these natural resources. Opponents of the tax increase counter that with already thin profit margins, any increase in cost will have a dramatic impact on their ability to operate, potentially costing the state thousands of jobs. Although a severance tax increase is off the table for now in Ohio, the issue will certainly reemerge in the coming years.

The final policy area that is critically linked to job creation in Ohio is improving the state's infrastructure. Like the rest of the nation, Ohio's roads and bridges are in a state of disrepair, with nearly 7% of bridges rated as structurally deficient, 17% of roads in poor condition, and nearly $30 billion in drinking and wastewater infrastructure needed over the next 20 years, according to the American Society of Civil Engineers[9]. Every sector of the economy relies on Ohio's infrastructure: from shipping goods and commuting to work and school on the roads and bridges, to shipping goods internationally from Ohio's ports and airports. Improving the state's infrastructure not only creates jobs on the projects themselves, but improves efficiency across all sectors of the state's economy, leading to increased production and greater economic growth. While there is near unanimous agreement on the need to improve Ohio's infrastructure, the more difficult question is determining how to pay for these costly repairs. Ohio's next Governor will

[9] American Society of Civil Engineers, "Infrastructure Report Card: Ohio."

have to work with the state legislature and the federal government to develop innovative solutions to finance these much needed improvements so that Ohio's economy can continue to grow.

In order to grow jobs in the 21^{st} century, Ohio must take an "all of the above" approach to job creation by realizing that every policy, from taxes and trade to education and infrastructure, has a direct impact on the state's economy and as a result, the ability to create more quality high paying jobs. When considering these policies, Ohio should look to the policies of its neighboring states and ask, how can we make Ohio the best destination to start or expand a business in the region?