



VIEWPOINT

ON PUBLIC ISSUES

November 24, 2008 • No. 143 • ISSN 1936-1491



State leaders must seek deep cuts in both taxes and spending.

Ohio's Taxing and Spending Nothing to Be Proud Of

By J. H. Huebert,

What's the biggest political myth in Ohio?

Maybe it's the idea that our state government is a model of responsibility because it "lives within its means" - that is, it pays for its spending in the present, through taxes, rather than in the future, through debt.

It's true that our state government is somewhat more constrained in its ability to spend and take on debt than the federal government.

But that doesn't mean the state's fiscal policy is harmless.

It isn't - and it's killing Ohio's economy.

Thirty years ago, things were different. Then, Ohio ranked 45th in the Tax Foundation's annual ranking of state and local tax burdens. That means Ohioans paid the fifth lowest taxes in the country.

Today, though, Ohio ranks 7th on that list. It rates worse than any of its neighbors -- in most cases, much worse. And between 1970 and 2006, Ohio's tax burden increased more than that of any other state.

Ohio's economic policy in general stacks up poorly.

Earlier this year, the Pacific Research Institute published a study of economic freedom in the states, considering such factors as taxation, regulation, government size, and government spending. Ohio ranked among the least economically free states - 44th of 50. Ohio would have ranked even lower but for its outstanding judicial climate, which the study ranked second in the nation.

With its heavy taxation and other government-imposed economic burdens, it's no wonder Ohio's economy also ranks among the lowest in job creation, new investment, and business climate.

Ohio University economist Richard Vedder has estimated that for every 1% increase in a state's

income tax, there is a 3.5% decrease in economic growth. Thus, Ohio's income tax, with a top rate of over six percent, puts it at a severe competitive disadvantage, especially against those states with no income tax.

Professor Vedder's research also shows that Americans are fleeing high-tax states like Ohio. From April 2000 to June 2006, there was a net migration of 2.3 million people from income-tax states to no-income-tax states. A recent study by economist Eric Fisher for the Buckeye Institute concluded that if Ohio had eliminated its income tax in 1990, its population growth would have been the 24th fastest in the nation instead of 44th.

Businesses are understandably even more ready than individuals to cross state or national borders to avoid taxes and regulation. Ohio's economy has no doubt paid dearly for that as well.

And the debt freedom that's supposedly the silver lining of Ohio's gloomy economic cloud? That's not quite all our government's cheerleaders make it out to be.

Ohio's constitution does limit the state from taking on debt that exceeds 5% of its general revenue fund.

But there are problems.

One is that the government decides for itself whether it has taken on too much debt. Another is that the legislature can, by a three-fifths vote, choose to ignore this limitation. Another is that some types of spending are exempted -- including spending on the "third frontier" program under which the state gives millions to politically favored businesses.

All of that's bad, but things may soon get even worse.
As the economy sinks, the state faces a budget crunch.

To his credit, Governor Ted Strickland has responded by looking for ways to cut spending. Unfortunately, he and others in Columbus appear wedded to too many costly projects to take these cuts much further.

That means they'll have to further exploit those debt loopholes, raise taxes, or both. More taxes, of course, will mean more harm to economic growth and more people and businesses leaving Ohio for economically friendlier states. More state debt would postpone these effects, at best.

The only way out of this downward spiral is to make drastic changes, including deep cuts in both taxes and spending.

When our politicians get the courage to take these steps -- which may be politically painful to them in the short run but will benefit all of Ohio in the long run -- then we perhaps we could applaud them for being responsible and restrained.

Until then, they deserve no credit for supposedly avoiding debt while crippling Ohio's economy.