



The Ohio and national economy: 2015

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This presentation is based on research from a recently released policy brief compiled by my team at Ohio State's C. William Swank Program in Rural-Urban Policy. The brief, "Growth and Change: Tracking Ohio's Recovery from the Great Recession", can be downloaded at <http://aede.osu.edu/programs/swank>.

Introduction:

- I remain optimistic on national growth as I have in the Outlooks beginning in the Fall of 2012.
- The U.S. economy continues to expand.
- It has been 66 months since the official NBER end of the Great Recession, or the 6th longest in U.S. history. (But we are due for a recession).
- As of the October Employment Report released in November, 2014 U.S. job growth is on track to be the best year since 1999.
- To put this in perspective, the 7 years before the Great Recession were the slowest 7 years of job creation since the Great Depression.
- The recovery from the Great Recession has been frustrating for the lack of job creation that is expected after such a severe recession.
- The general patterns of regional U.S. growth that existed over the 1960-2007 period have mostly reestablished themselves.

IMF and OECD Forecasts:

- IMF and OECD forecasts are well respected and usually are "cautious" in not being too far from consensus.
- Among advanced economies, the U.S. has been the recent leader and this is expected to continue through 2016.
- Growth will not be robust as in the last-half of the 20th Century, primarily due to low productivity growth.

Economic Fundamentals:

- The U.S. does not seem to have the ability to carry out any kind of fiscal/growth policy.
 - Will a Republican Senate help?
- U.S. government budget balance is in relatively good position and could support "investments."

Infrastructure and Education:

- Building and improving infrastructure is the current "hot" policy recommendation in international circles.
- Following the IMF (2014):
 - Infrastructure has the advantage of creating jobs in the early construction phase, which is appealing to politicians.
 - Budget situation is in improved situation.
 - Infrastructure has the advantage of raising productivity and living standards in the future.

- Educational attainment is the most robust predictor of economic growth.
- U.S. educational attainment is lagging most of the developed world for younger adults (OECD, 2011).

Ohio and Midwest Performance:

- Great Recession and subsequent recovery/expansion has been challenging.
- Compare OH to the U.S.
 - Coming out of the recession, Ohio outperformed the U.S. but beginning in 2012, the historic pattern of Ohio underperforming the US by about 0.5 to 1 percentage points a year remerged.
- A key feature of weak Midwest economic performance is its manufacturing intensity.
 - In June 2014, Ohio manufacturing employment was 51% below 1979 levels and 34% below June 2000.

Comparing Ohio to the Midwest:

- For a better comparison to similar economies and histories.
- Wisconsin performs at the U.S. average followed by Indiana.
- Ohio, Michigan, and Illinois lag the nation and are about equal.

Brief Discussion of the 3 C's:

- The general story is that the most prosperous is in order of Columbus, Cincinnati, and Cleveland.
- In the last decade, Columbus has widened its advantage.
- Columbus looks ok even when compared to peer cities with less manufacturing and more services.

What Ohio can do?

- First, it takes a long time to change a state's fortunes and sometimes it is just blind luck.
- Ohio has primarily used tax policy to improve its performance.
 - Generally, hard to estimate tax policy effects: reverse causation, sort out the effects of expenditures, etc.
 - When you do this, you get small to modest effects.
 - Likely because virtually all states have used tax policy since the 1970s and differences across states are now minimal.
- I think the best thing that the Kasich administration has done (besides what appears to be a capable staff) is their budgets are credible and would support current levels of expenditures. Reduces uncertainty for planning.
- I think more creativity in terms of education and human capital development for the workforce is one area that warrants more attention.
- Attention to crumbling infrastructure would also lift short-term employment but most important long-term productivity and quality of life.
- Also, reform the tax code policy so as to not put small businesses at a disadvantage.
 - Small and new business start-ups generate a disproportionate share of employment growth.

Conclusions:

- 2015 looks to be a reasonably good year following what could be the best year since 1999.
- The U.S. and Ohio will continue to grow at reasonable rates in the post-2000 world.
- More innovation in policy is needed to shake both from the current path of relatively slow growth being the new normal.