Building Sustainable Communities During Economic Crisis: Think Locally.
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Ohio in long-term perspective

• Even w/o a crisis, Ohio faces systemic problems that present greater long-term challenges than the current crisis.
• Ohio’s economy has lagged the nation for decades.
• Who cares—old news... **BUT Important!**
  – If Ohio returned to the national average in per-capita income: $13,000+ more income for a family of 4.
  – 60,000 more jobs a year if Ohio’s job growth equaled the U.S. rate in 2000-07.
  – Private sector investment does not occur with current expectations.
    • Vicious cycle that limits wealth creation.
OH compared to U.S. and our Great Lake State peers (Rust Belt). Great Lake States all have a manufacturing history, settlement history and weather that drives Sunbelt migration. So doing worse than them is particularly alarming for Ohio’s future.
Ohio economic crisis

• Need to make Ohio more competitive for growth.
  – We can’t control the global economy/climate, etc. but we can control our government and education.

• One near term problem is state and local budgets are billions out balance going forward (Strickland Admin has been prudent).
  – Bad: very little money to currently work on long-term fixes such as K-12 or infrastructure.
  – Good: this is the time to eliminate ‘bad’ programs i.e., ‘across the board’ cuts are not serving the interest of Ohioans.
  – Perhaps there will finally some impetus in streamlining Ohio’s many layers of local gov’t
Reforming Ohio to Make Sustainable Communities

- In the global economy, capital, talent, and entrepreneurship flow to places with slightly higher profits and higher quality of life.
  - “At the touch of a button”
- Ohio needs to increase regional collaboration and streamline local government
  - About 4,000 local governments
    - Lack accountability and transparency
    - Higher costs to provide services
    - Do not cooperate very well—if I live in Wilmington and work in Kings Mills—I would want both to fare well. People and business locate in regions not “dots on a map.”
  - Yet local gov’ts compete for jobs & tax poach, bringing down entire regions
Reforming Ohio—cont.

• We need to reform local taxation.
  – Local earnings taxes need to be replaced with other revenue source to stop jobs poaching.
  – Revenue needs to be shared regionally to ensure regional cooperation.

• Quit following the latest “fads” in economic development.
  – Creative class, clusters, value-added manufacturing
  – Being energy efficient will greatly increase a community’s competitiveness
    • But green energy won’t be a major jobs creator if it is to be sustainable—i.e., I don’t want it to be costly.
Local Communities are Resilient

• The empirical evidence suggests that major base closures have little long-term effect on the typical community.

• The empirical evidence suggests that even natural disasters have little impact on long-term growth.

• The empirical evidence suggests that even major military bombing campaigns have little impact on long-run growth.

• MORAL: It is about the foundation that communities build that cause long-run growth.
U.S. Situation

- U.S. recession appears to be the worst since the Great Depression.
  - Job growth is even weaker than 1981-1982, though that recession followed the 1980 recession. So the labor market was really weak in the early 1980s.
  - This recession is much more national in the past. The Bureau of Labor Statistics reported only 1 state gained employment in December.

  » http://www.bls.gov/news.release/lau.nr0.htm

- Fixing the banking problem is the key to beginning economic recovery. Stimulus packages are insufficient.
Note how late 2008/2009 is the sharpest decline—perhaps since the Great Depression.
Stimulus Package and Growth

- Federal stimulus package may have a small positive impact in the short run and may be larger in the long term if well spent.
  - Its effects are more psychological.

- The key factor affecting the U.S./Ohio business cycle is a national financial “bailout” and reforms.
Federal and State Policy

- The state’s 2008 $1.6 billion 5-year stimulus package is a tiny share of the Ohio economy (about 0.06% of GDP per year).
  - Its impact will be imperceptible at most—press releases notwithstanding.
  - For any state, most of the effects of its spending trickles out of its borders—even more so in a global economy.
- States should leave global business cycle policy to the federal gov’t. Ohio should focus on its long-term competitiveness.
Current Ohio Conditions

- Employment data suggests Ohio may have entered recession in late 2006.
  - Felt like a recession to me in Ohio.
  - Actually Ohio may not be as worse off as the nation due to a smaller real estate bubble and less financial speculation.
  - Ohio lost about 4.1% of its nonfarm jobs in the Feb 08 to Feb 09 period. [note some data issues]

Ohio Employment data is from the BLS with the exception of January 2009, where it is from the State of Ohio—see the notes to the next slide.

Source U.S. BLS: State and Area Employment, Hours, and Earnings; Current Employment Statistics, Downloaded March 11, 2009
Despite the attention of journalists, economists who study regional economies focus on employment growth. Unemployment is hard to define and especially hard to accurately measure at the state level with current survey approaches. Also, unemployed workers may out-migrate, giving the misleading impression that a state is doing well—a la North Dakota’s historically low unemployment rate despite virtually no long-run population growth.
Manufacturing and the Ohio Economy

– Though manufacturing represents a drag—not the huge drag it was in past recessions.
– Ohio’s ‘problem’ is not that (say) the domestic auto industry is going down the drain (or whatever).
  • Creative destruction makes more productive market economy
  • Ohio’s problem is not letting go of declining industries and finding new ones—relative to the rest of the U.S. We prefer ‘bailouts’
  • We over rely on tax incentives.
Including proprietors provides a more complete picture than just examining wage & salary workers.
U.S. and Ohio Farm Share of Total Employment including Proprietors.

% Farm Share of Total Employment

Year


US OH

Source: U.S. BEA, MDS Database.
Ohio & Clinton County Farm Share of Total Employment including Proprietors.

% Farm Share of Total Employment

Year


OH Clinton, OH
Tax Incentives and Bureaucrats
Picking Industries to move forward?

— Sectoral policies—build sectors with future growth potential—e.g., advanced technology

• Rave of 1980s/early 1990s: replicate Silicon Valley
  — Ohio even “targets” industries facing certain decline.

• Economists enthusiasm quickly waned when it became apparent that most government efforts had badly failed. E.g., counterexample Seattle 1978.

• **Economists now promote: “Back to the basics”**
  
  • Workforce skills, quality of life, good gov’t, infrastructure
  • Build local entrepreneurship! Especially in Clinton County. One big firm can close down. Small business stays and it diversifies the economy.
  • Recently, we hark on the need to avoid the latest “fads” like “clusters” and stick to what works—even if boring.
While self-employment/proprietor share of employment is rising in Ohio and the U.S., it is falling in Clinton County. Local efforts need to look in this direction.
Conclusions

• Ohio has faced long-term structural decline that is more important than short-term business cycle.

• This appears to be the worst global economic crisis since the Great Depression—but Ohio has actually performed worse in past recessions.
  – Ohio is much more diversified and less reliant on manufacturing.
Conclusions—cont.

- State policy should not promote stimulus. It will have virtually no impact as the economy effects would be dispersed across the globe.
- Ohio should instead focus on its long-term competitiveness: streamline local gov’t, provide good education and services at a low cost.
- National recovery needs a program to support the financial system. Current approach is unfocussed and lacks certainty.
To conclude, I want to reaffirm what a pleasure it has been here today. I hope this presentation has stimulated you, not only for the remainder of this workshop, but also to go back and to your communities and try new innovative solutions.