

V. Fiscal Responses to Previous Recessions

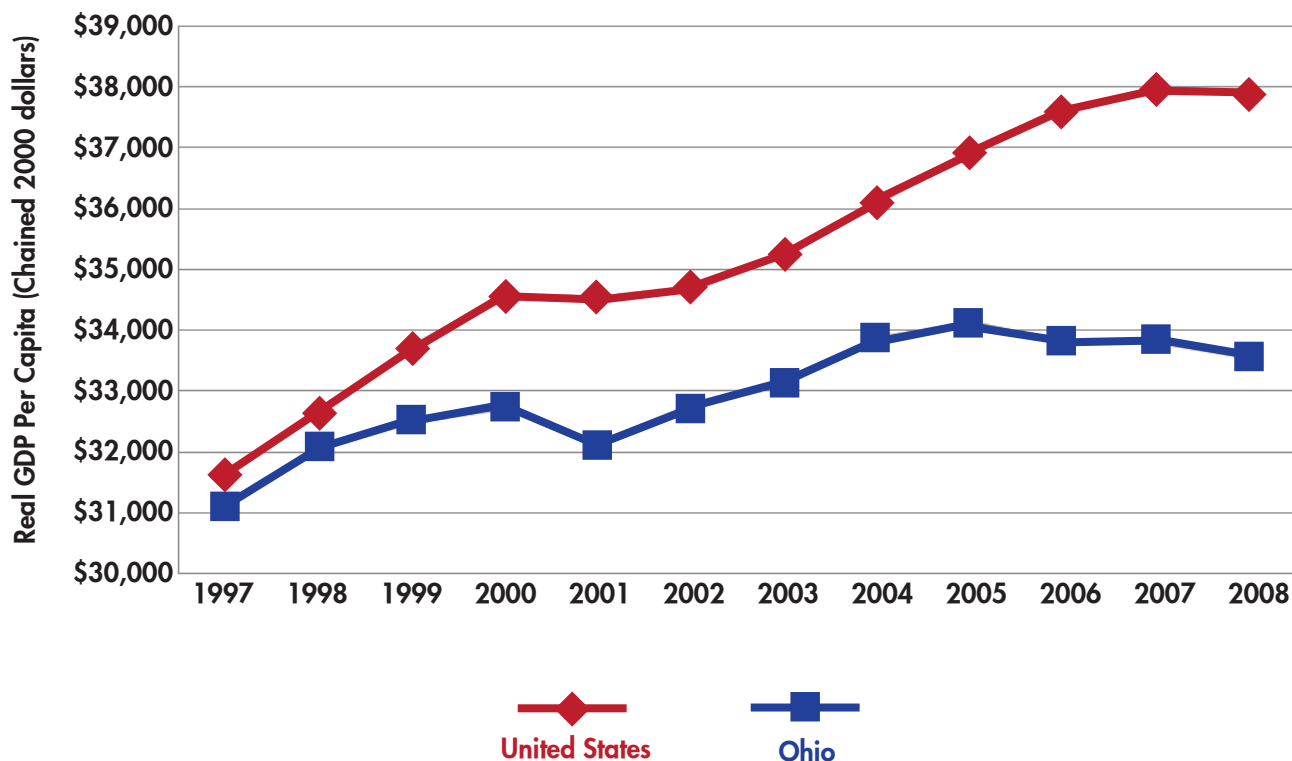
As is the case with most states, Ohio has responded to previous recessions with a balanced approach that included revenue increases—only to lower taxes subsequently in periods of economic growth. Each of the last five governors agreed to raise revenues in a recession, generally after making a number of spending cuts.²⁵ A revenue crisis in the early 1970s led to the adoption of the state individual income tax under Governor John Gilligan and the addition of an income tax component to the corporate franchise tax. In a deep recession in the early 1980s, the legislature adopted Governor Dick Celeste's proposal to increase income tax rates.

In the early 1990s, Governor George Voinovich reached a compromise with the legislature and agreed to a new top income tax rate of 7.5 percent

on taxable income above \$200,000 and extended the sales tax to various services.²⁶

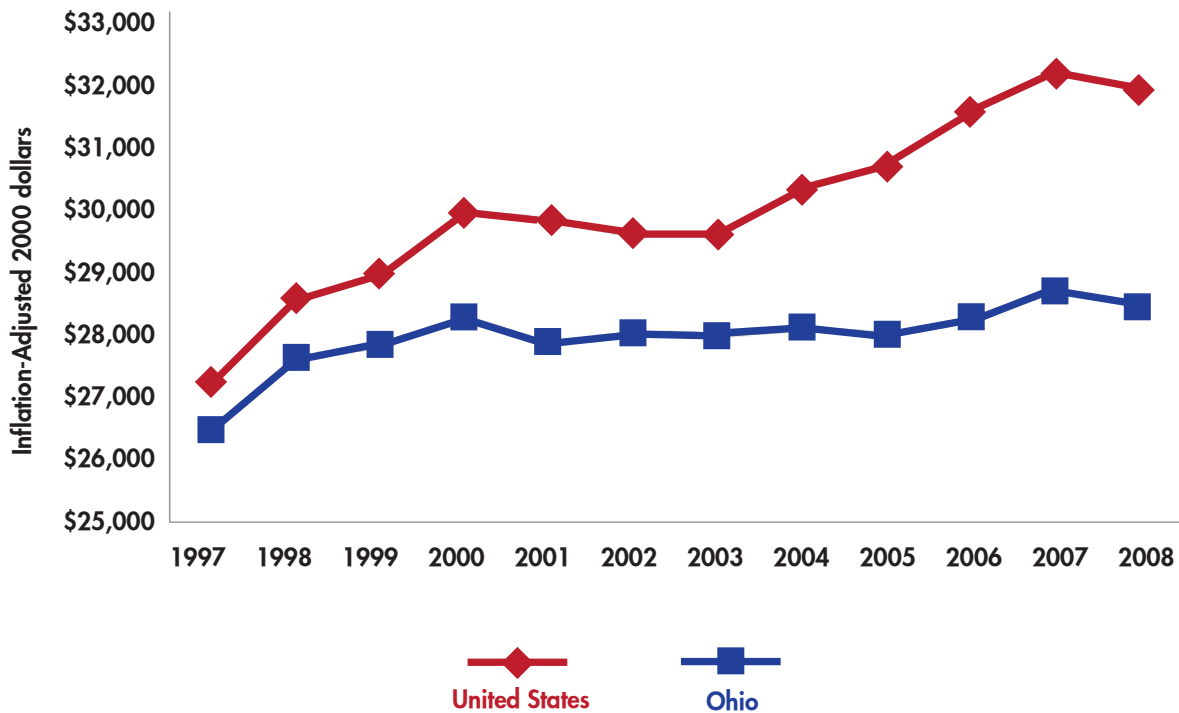
The record shows that increased taxes have not hindered a strong economic recovery. In the seven years from 1983 to 1989, Ohio's economy gained an average of 118,000 jobs per year.²⁷ In the seven years from 1993 to 1999, Ohio's economy created an average of 108,000 jobs per year. In contrast, the economy has not seen a boost from the tax cuts that have taken place since 2005. Even before the recession, Ohio failed to keep pace with the nation in employment growth and other key economic indicators, such as personal income and economic output as measured by Gross Domestic Product (GDP) (Figures 19 and 20).²⁸

Figure 18. GDP per capita, Ohio and the U.S.



Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Figure 19. Personal Income per capita, Ohio and the U.S.



Source: U.S. Department of Commerce, B.E.A.; The Center for Community Solutions.

Strategies for Raising Revenue

In designing a balanced approach that includes revenue, it is important for policymakers to focus on a strategy that places the least burden on low-income families and the unemployed. Raising taxes on high-income households is one of the best policy options in a recession. Joseph Stiglitz, Nobel prize-winning economist, explains there are sound economic reasons to focus on higher-income earners:

The more that the tax increases or transfer reductions are focused on those with lower propensities to consume (that is, on those who spend less and save more of each additional dollar of income), the less damage is done to the weakened economy. Since higher-income families tend to have lower propensities to consume than lower-income families, *the least damaging approach in the short run involves tax increases concentrated on higher-income families.*²⁹

In other words, government spending—on payroll, contracts, and subsidies—is a form of eco-

nomical stimulus that can help ease the impact of a recession. Deep budget cuts not only hurt people who need assistance; they can make the recession worse.

Other states have used tax increases to help fill holes in their budgets. Eleven of them raised income taxes for FY 2010, including Oregon, which also raised its corporate income tax. The nonpartisan Oregon Legislative Reference Office compared the economic impact of the tax increases with the impact of the expenditure reductions that would have been needed to fill the budget gap. The report concluded that the state is better off economically in the short run with a tax increase than with budget cuts.³⁰ In the long run, the report concluded that the economic effects of tax increase depended on how the increased revenue was spent. Spending priorities such as education and infrastructure were likely to raise productivity and have positive economic impacts.³¹