



Why Does “Investing” Always Require More Spending Versus Smarter Spending?

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Matt A. Mayer

With the release of Governor Mike DeWine’s proposed biennial budget, one broad conclusion is clear: the DeWine Administration won’t look much different than the Kasich Administration. Specifically, it appears that unless the Ohio General Assembly pushes back, state spending increases will continue to outpace inflation, Medicaid expansion will continue to swallow nearly half the budget, and Ohio will put all of its recession eggs in the \$2.7 billion rainy day fund built up by Governor John Kasich.

A. “Now is the time for us to invest in Ohio.”

What exactly does the DeWine Administration believe was happening over the last eight years under Governor Kasich? From Governor Kasich’s first budget in which state GRF spending hit \$26,394.6 billion in FY2012 to Governor DeWine’s first budget in which he proposes FY2021 spending to reach \$35,303.0 billion, state spending will have grown 33.75%, or 3.38% per year. Keep in mind, that annual average increase **includes** the -8.0% spending reduction from FY2017 to FY2018 due to an estimated \$1 billion deficit that forced such a cut.

Moreover, as state spending will jump nearly 34% in a decade, inflation over the last decade only totaled 16.63%, which means Ohio state spending grew **twice as fast as inflation!!!** If that higher spending didn’t count as investing in Ohio, then what exactly was it?

Disappointingly, in not one of the eight major spending categories in the proposed biennial budget does spending get reduced over the next two years. On a micro level, of the sixty-six sub-cabinet entities funded by the GRF, only eight entities are projected to receive spending cuts. One would have hoped Governor DeWine could have found one major category to offset his numerous spending increases with a spending decrease, especially given the spending increases that doubled inflation over the last decade.

B. Governor Kasich’s Medicaid Expansion Will Continue

The proposed budget clearly continues Governor Kasich’s expanded Medicaid program, as it proposes Medicaid spending surpassing \$16.5 billion in FY2021. If adopted, Medicaid spending in Ohio will have jumped from \$11,425.8 billion in FY2011 to \$16,569.3 billion in FY2021. In just ten years, Medicaid spending will have skyrocketed by 45.02%, or more than 4.5% per year on average. In FY2021, Medicaid spending will consume 47% of state spending. That assumes, of course, the federal government makes no changes to the federal reimbursement rate despite the massive federal deficits expected over the next decade. We [estimate a recession](#) would increase enrollment by over 240,000 people, with higher spending resulting therefrom. That higher spending would come as the recession drives tax revenues down substantially.

C. The Economic Expansion Will Roll-On for Two More Years

Upon reviewing the estimated revenues in the proposed budget, Governor DeWine expects state revenues to increase solidly over the next two years. Specifically, his proposed budget assumes tax revenues will increase by 6.45%, thereby enabling the 5.87% increase in state spending over the next two years. The current expansion will become the longest in modern history this summer, so Governor DeWine is betting heavily that it will continue for the entirety of his first biennial budget ending in June 2021.

I hope his prognosticators are right, but history is not on his side. We [estimate a recession](#) would result in a roughly \$2.0 billion reduction in tax revenues. Should it be worse than our estimate, the \$2.7 billion rainy day fund would be totally eliminated.

D. The Ohio General Assembly Should Reject the Broad Contours of the Proposed Budget

As detailed in our [Reimagine Ohio 2019 report](#), state spending has gone up enough over the last few decades to more than meet the true needs of our state. The Ohio General Assembly should freeze state spending for the next two years to give taxpayers more time to catch up with the years of spending increases and to have a more credible budget for when the inevitable national recession occurs sometime in the next two-to-four years.

The Ohio General Assembly also should repeal Governor Kasich's Medicaid expansion and find alternative ways to incent businesses to provide healthcare to the workers currently served by the expansion. The fiscal pain of Medicaid expansion hasn't been felt in Ohio yet, as federal deficit spending has covered the bill. With the federal government itself facing record deficits over the coming years, those days are coming to an end. More state spending on Medicaid expansion will crowd out investments in other vital areas. Ending the program now before Ohio taxpayers are left holding the bag and before a national recession drives even more people into the program is the fiscally sound action to take.

With the horrific revisions by the U.S. Bureau of Labor Statistics which dropped Ohio's private sector job gains from more than 116,000 jobs in 2018 to less than 48,000 jobs, Ohio's private sector over Governor Kasich's second term gained half the jobs it added during his first term. This steep decline came despite the efforts of JobsOhio. Ohio remains just one of three states that still has not recovered to the peak employment reached in March 2000. The Ohio General Assembly must reform JobsOhio to get greater accountability, transparency, and, clearly, effectiveness.

At the end of the day, Ohio's private sector and its workers don't need higher state spending. They need greater freedom from labor unions and from Ohio's burdensome regulatory structure, which [grew during the Kasich Administration](#) despite the Common Sense Initiative program. Policymakers can continue to avert their eyes from that reality, but Amazon's New York City experience is proof positive that labor unions are a negative factor in the decision-making processes of businesses.

Finally, policymakers must address the combined state and local tax burden of Ohio's 3,700 jurisdictions. With the gas tax likely being raised without any offsetting reforms or tax cuts, Ohioans will walk around with less money in their pockets diminishing the increases they received from the federal tax cuts. It is time Ohio government got smarter, not more costly.