A Tale of Two Policies

By Don Sutherland

It was the best of times,
It was the worst of times,
It was the age of wisdom,
It was the age of foolishness…

Those are the opening lines from Charles Dickens' *A Tale of Two Cities*.

Those lines could well describe the contrasting visions articulated by San Francisco Federal Reserve President John C. Williams in a recent speech before the Sacramento Economic Forum and that implicit in Oklahoma's recently-renewed tax policies. More importantly, this difference in perspectives could offer a glimpse of the policy debates to come.

With regard to Oklahoma, Reuters **reported** on May 17 that "lawmakers had voted to keep in place some of the lowest taxes on oil and gas production in the United States—a break worth $470 million in fiscal year 2015…" The article continued:

Oklahoma's school-funding crisis is part of the pain inflicted by falling oil prices on energy-rich states across America that rely on natural-resources taxes to pay their governments' bills. But the crisis in Oklahoma is especially dire, exacerbated by a legacy of large tax breaks bestowed upon oil companies…

Overall, Oklahoma's $3 billion education budget has been cut by $58 million since January. Though next year's funding remains uncertain, the state's projected 18 percent budget deficit has schools preparing for the worst.

The above outcome involves a classic choice to finance present programs by cutting investments in the future. Going forward, a major question concerns whether Oklahoma will be better or worse off from this decision in the longer-run.

If San Francisco Fed President Williams' remarks of May 13, 2016 are any indication, the odds may favor the latter scenario. In his speech, Williams **explained**:

… investing in early childhood and going to college have very high returns.

Research shows a direct correlation between the quality of a child's neighborhood and income later in life. And if you remember just one number, make it this: 300,000. That's how much more a kid who's moved from public housing into a lower-poverty area can expect to make in a lifetime.

As for the benefits of getting a college degree, we know that there's an average annual income gap of about $58,000 between households with two college-educated earners and those with two high school educated earners. A college education has returns more than twice that of stocks and

about five times more than bonds. And while it is a long-term investment, the average breakeven period is around 10 years.

Were the Oklahoma trade-off a fairly uncommon decision made to cushion a wrenching shock to that State's economy, the issue would likely not rank among the more important issues of the day. However, it is important, because it offers insight into the kinds of tough choices that may regularly confront policy makers in the years ahead, as the huge Baby Boom generation continues to retire and the nation's labor force participation rate continues to decline.

As the nation's structural fiscal pressures mount, it will be precisely the kind of boost to innovation and productivity that education makes possible that will become increasingly crucial to the nation's economic and fiscal well-being. Unless colleges and universities can articulate those returns on investment today, those critical returns might not be available tomorrow.