

Costs and Benefits, Short-run and Long-run

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As we move into the fall election season, the airwaves are beginning to fill-up with a broad range of sound bites about the state of the economy. Candidates from across the spectrum continue to debate whether we are better off today than yesterday and what will tomorrow bring. These types of questions though do not really have a satisfying response for everyone. Over the past 8 years, especially as the Great Recession begins to recede into memory, national, state and local unemployment (at least for Long Island) is at its lowest level in a decade and growth rates, while low are fairly stable. Wage rates have begun to show signs of increasing, and inflation is still very low. In other words, the U.S. economy appears to show signs of relative strength, especially in relationship to many of its trading partners and the rest of the world.

As always, policy-makers and analysts continue to forecast and anticipate the future direction of the economy, and policies to enact to support growth. These policies of course must be viewed in terms of both their short-run and their long-run effects, and very often have differential impacts upon individuals and regions in the country. Policies that work at the local and regional level may not necessarily be effective at the national level. Conversely, policies that would be effective nationally, may not work at the local level.

Some of the most familiar economic issues raised this campaign season across almost all levels of office seekers have had to do with taxes, the loss of manufacturing jobs, middle class employment opportunities, trade policy, and the high cost of education. Looking at taxes for a moment, almost all politicians running for office suggest that taxes are too high. Whether or not they are too high is debatable, but regardless, it is a comment that plays well to audiences across almost all income spectrums. For national office seekers, it is usually income tax policy that is the subject of the critique, both personal and corporate tax rates and policies. At other levels (state and local), it may be some combination of income, property, or sales taxes that are being discussed.

The debate over the loss of manufacturing and middle class employment opportunities usually starts from the stand-point of taxes. High tax rates and excessive or overly-stringent regulations are often pointed to as underlying reasons for the continuing decline in manufacturing, outsourcing, and the hollowing out of middle income employment opportunities nationwide. Again, there may be a kernel of truth to these arguments, but there are many factors affecting both manufacturing and middle income employment opportunities, in particular rapidly changing and emerging technologies and global marketing opportunities.

Trade policy, such as NAFTA, the Trans-Pacific Partnership, and similar policies that have created greater openness of the U.S. economy are also blamed for the loss of manufacturing and middle income employment opportunities. Policies favoring and liberalizing international trade and reducing tariff rates have realigned production activities not just regionally or nationally, but globally as well. Some of this realignment would have taken place regardless of these particular policies as a result of changing cost structures and production processes.

The cost of higher education each election cycle appears to gain ever greater attention. In the past few years, a number of news stories have appeared in local and national news outlets profiling individuals and sometimes groups of individuals or graduates that have graduated from both prominent and lesser known institutions with high levels of student loan debt and limited employment prospects. Some candidates for national office especially have taken up the mantle of offering various policies to assist families with college age children, from proposals for free tuition to increasing tuition tax credits. While it is true that college costs have been increasing over the years, the returns to higher education are also quite high. College graduates earn significantly more than high school graduates. And possibly even more importantly, the unemployment rate for individuals with a college degree are significantly lower than for those individuals with only a high school diploma, regardless of the field studied.

These are all important issues, and in general there are no simple solutions for any of them. The focus though of almost all of these critiques is upon costs. What about the benefits that we accrue from these activities. Taxes collected at the local, state, and national level are used to pay for the provision of a wide

range of goods and services, from the provision of roads, highways, bridges and other transportation services to things such as primary and secondary schools, police and fire services, emergency response (e.g. to floods, tornadoes, hurricanes, etc.) services, and national defense. While the specific level of services that should be provided is debatable, once the policy has been established, we do have to find a way to pay for them. The provision of many of these services underscore our economic infrastructure – public provision of tunnels, bridges, highways, and similar support a wide range of economic activities. Public schools, and especially public colleges in the form of community colleges and state universities help to train and educate the skilled workforce necessary to keep U.S. industries competitive with the rest of the world. Free trade has expanded the range and quality of goods that are available in the market from cellphones and automobiles, to a whole host of specialty and luxury items.

It is certainly important to gain control of these costs, whether it is tax rates, or the cost of higher education. Concomitantly, we must consider both the short run and the long run consequences that will arise from changing tax codes, negotiating trade agreements, and funding or subsidizing higher education. Most of our problems tend to be complex issues, and while it is appealing to believe that we can resolve a complex problem by applying what appear to be reasonable common sense simple solutions with immediate short run benefits, these solutions may create a host of unintended long run consequences.