

Weathering Economic Uncertainty

**Commerce Street Capital's
15th Annual Bank Conference**

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Institutions Matter

Economy & Government

Why Do Nations Fail?

➤ Acemoglu and Robinson (2012)

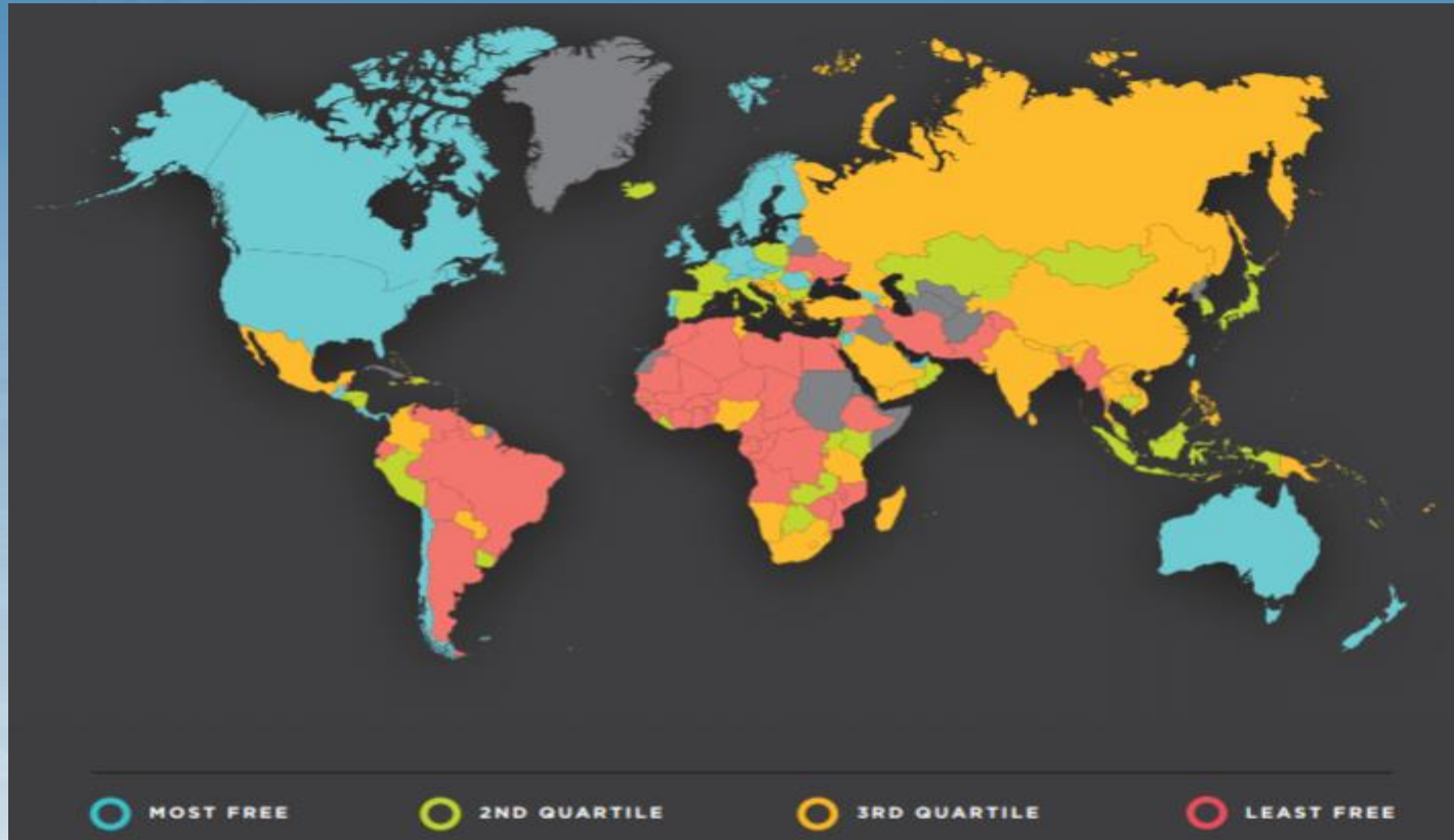
Extractive institutions



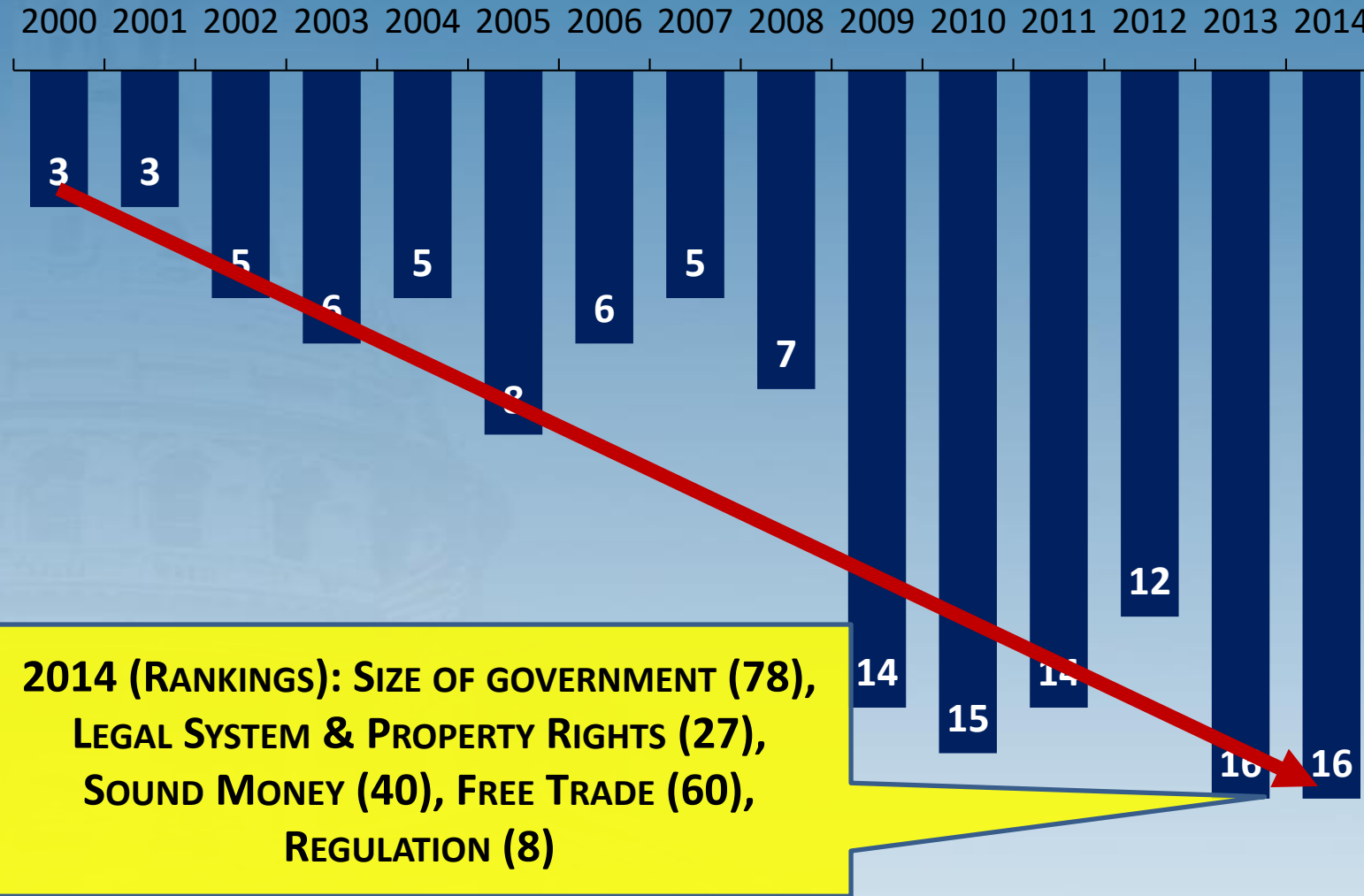
Inclusive Institutions



Economic Freedom of the World



Economic Freedom in U.S.?

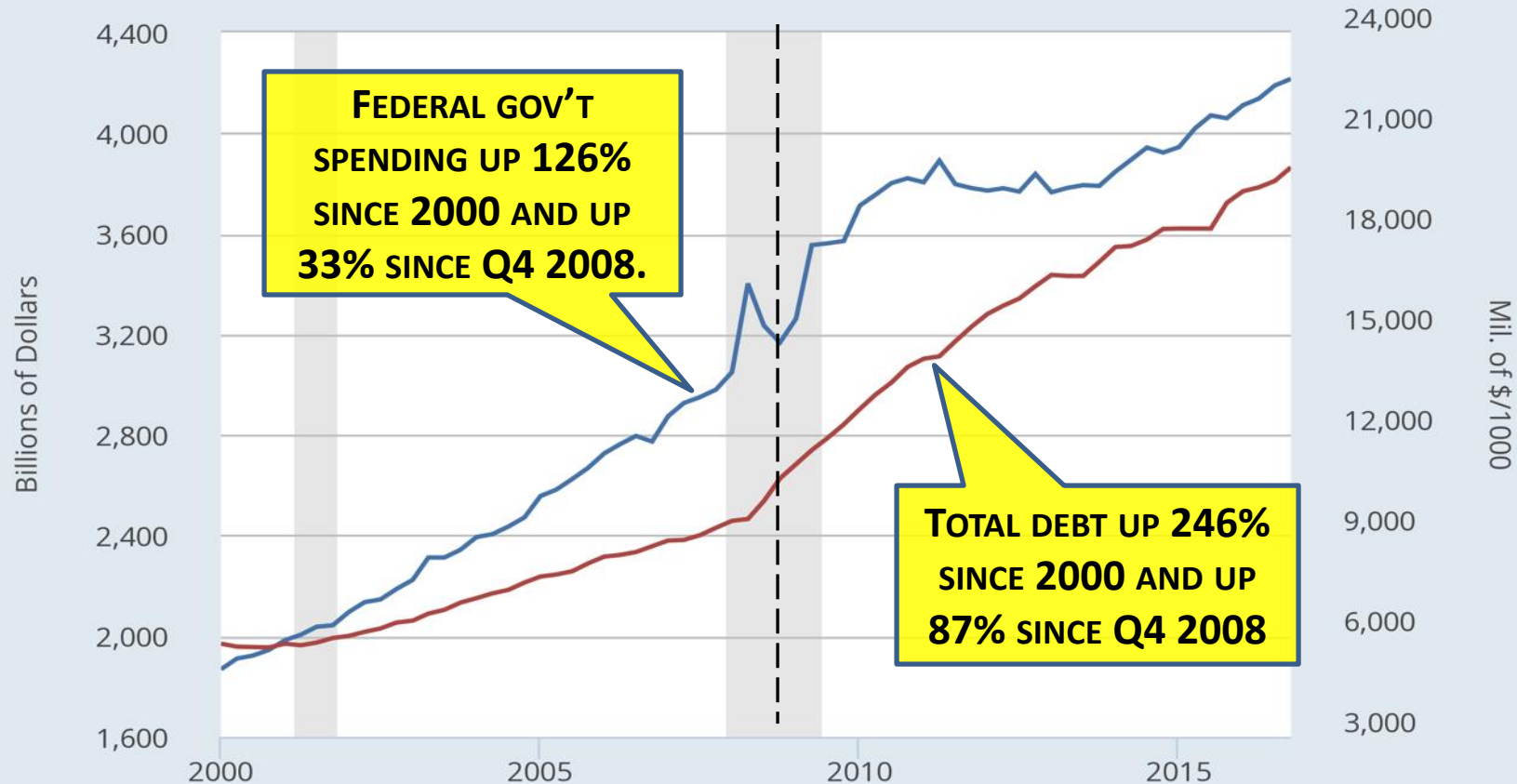


Source: Fraser Institute, [Economic Freedom of the World 2016](#), 157 countries

Fiscal Policy?

FRED 

— Federal Government: Current Expenditures (left)
— Federal Debt: Total Public Debt/1000 (right)

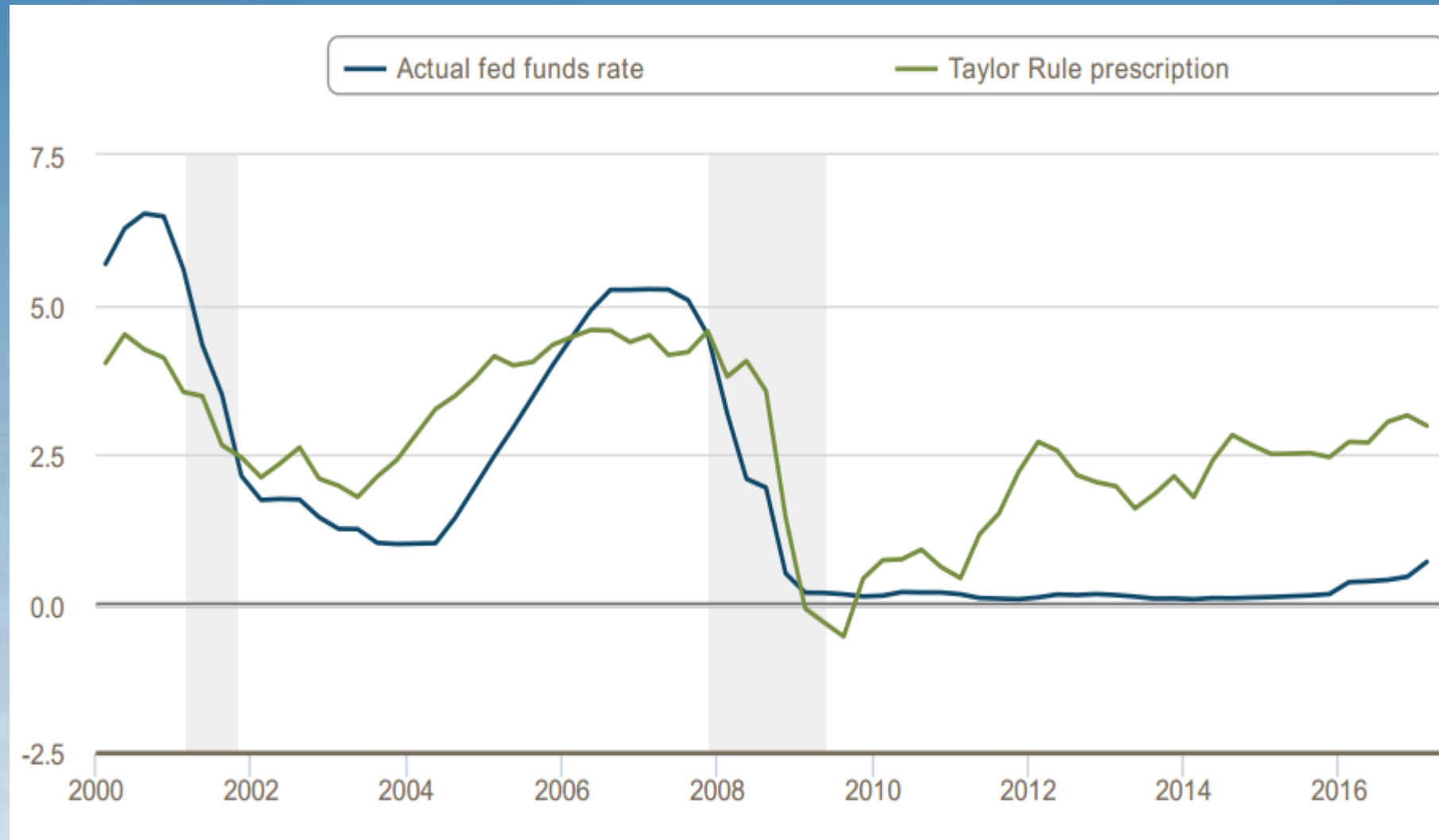


Sources: BEA, Treasury
fred.stlouisfed.org

myf.red/g/dpsw

Source: Fed FRED

Monetary Policy?



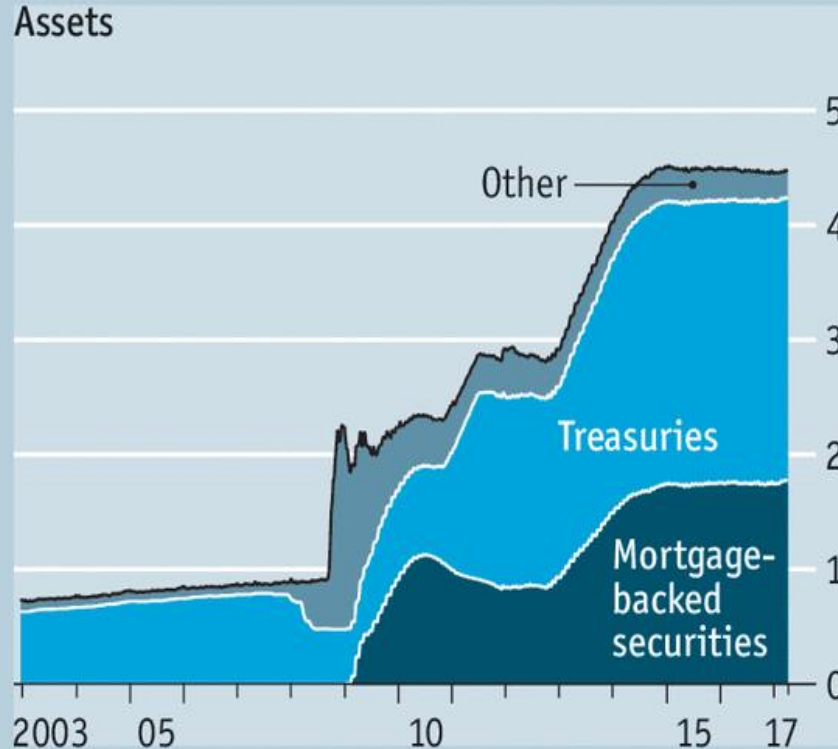
Source: [Federal Reserve Bank of Atlanta](#)

Normalizing Monetary Policy?

The \$4.5trn question

Federal Reserve holdings, \$trn

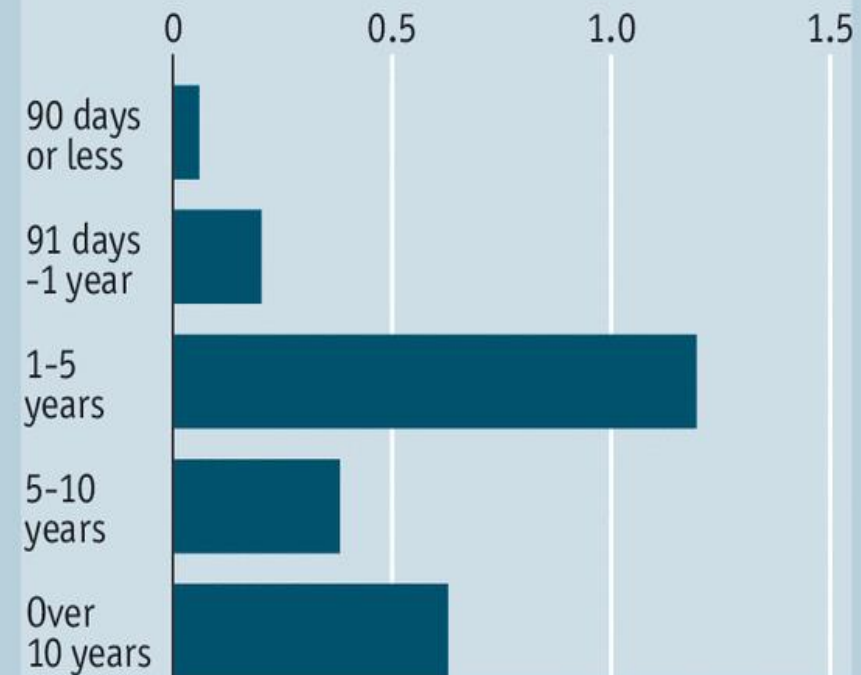
Assets



Source: Federal Reserve

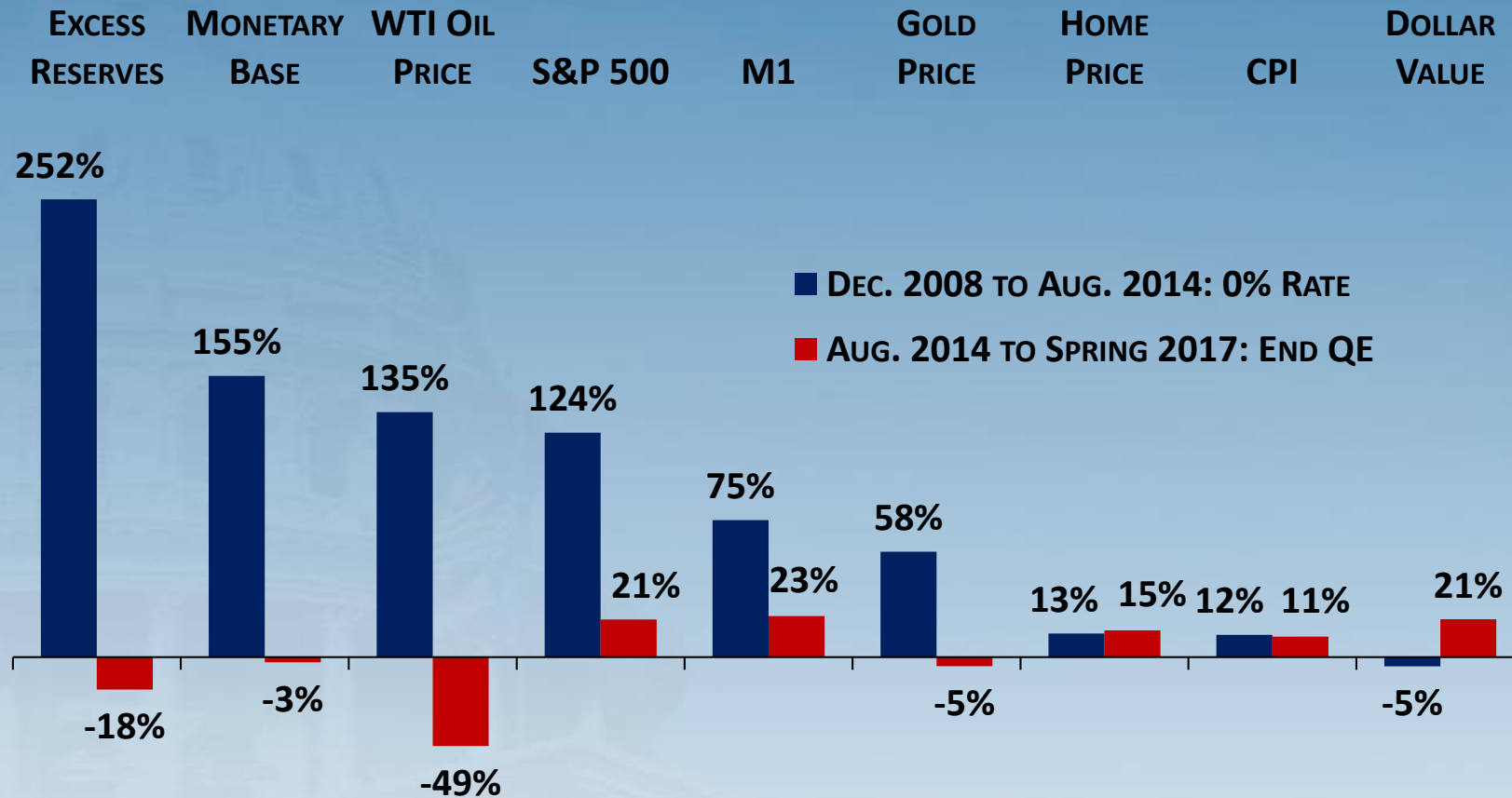
Economist.com

Treasuries by maturity, April 2017



Source: [Bloomberg Business](#)

Inflation from Fed Actions?

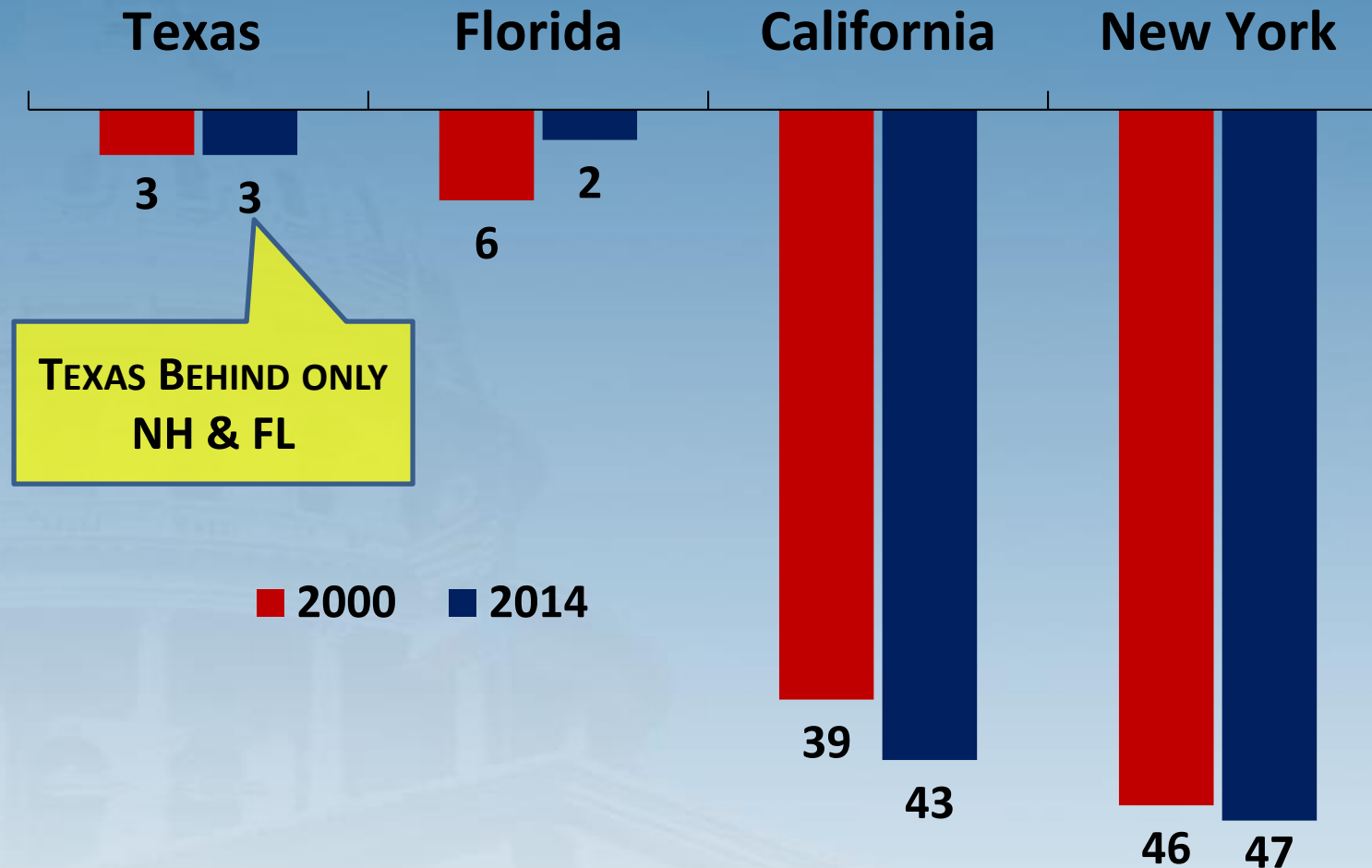


Source: Fed FRED

Failed Federal Gov't Institutions?

- Slowest recovery since WWII: 2.1% real GDP avg annual growth rate
- Standards of Living since 2007?
 - Population: +8% (325 million in 2017)
 - Food stamp recipients: +62% (42.7 million in 2017)
 - Poverty level: +14% (43 million in 2015)
 - SSDI recipients: +24% (8.8 million in 2016)
- Mulligan (2012): Implicit marginal tax rates

Institutions Matter: Try New Model?



Source: Fraser Institute, [*Economic Freedom of North America 2016*](#)

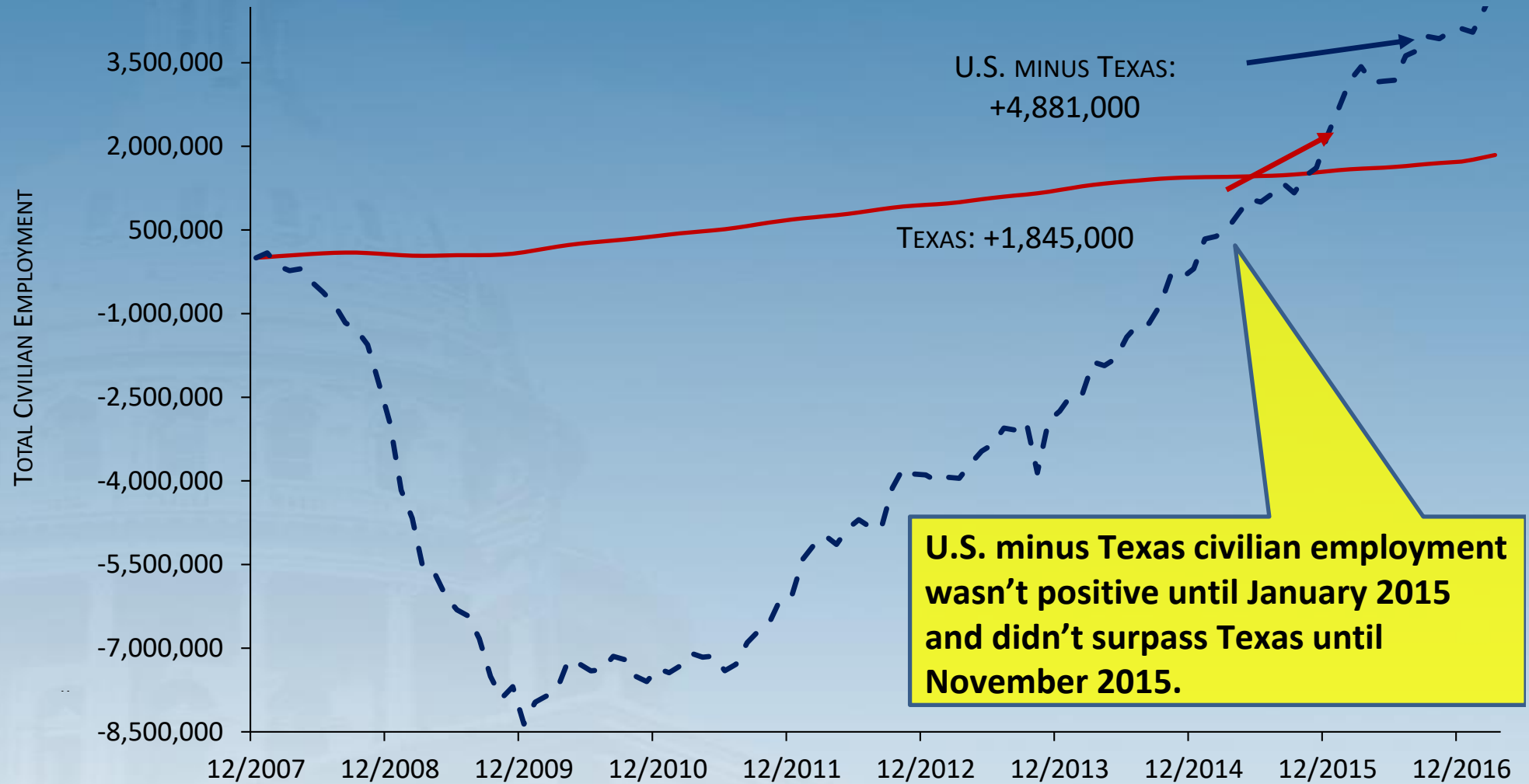
Comparison of Four Largest States

Measure	U.S.	Texas	Florida	California	New York
Economic Freedom of North America (2014)	--	3 rd	2 nd	43 rd	47 th
State Business Tax Climate Index (2017)	--	14 th	4 th	48 th	49 th
State-Local Tax Burden (2012)	--	46 th	34 th	6 th	1 st
Avg. Annual Nonfarm Job Creation (2000-15)	0.6%	1.6%	1.1%	0.8%	0.6%
Avg. U-3 Unemployment Rate (2003-15)	6.6%	6.0%	6.6%	8.1%	6.5%
Avg. U-6 Underutilization Rate (2003-15)	11.9%	10.9%	12.3%	14.9%	11.5%
Avg. Labor Force Participation (2000-15)	65.2%	66.3%	62.0%	64.8%	62.3%
Avg. Employment-Population Ratio (2000-15)	61.1%	62.5%	58.1%	60.0%	58.4%
Avg. Employment-Pop. Ratio 25-54 (2003-14)	77.52%	77.19%	77.59%	75.02%	75.90%
Total Civilian Emp. (12/07-12/15), ex. TX	+2,121,000	+1,534,000	+489,000	+929,000	+130,000
Total Nonfarm Emp. (12/07-12/15), ex. TX	+3,330,000	+1,403,000	+280,000	+802,000	+530,000
Real Avg. Annual Private Pay (2001-14)	6.1%	10.2%	6.1%	6.9%	5.4%
Avg. Top 10% Income Shares (2000-13)	47.5%	48.8%	52.0%	54.2%	56.6%
Avg. Top 1% Income Shares (2000-13)	20.3%	21.3%	23.9%	25.8%	29.7%
Supplemental Poverty Measure (2013-15)	15.1%	14.9%	19.0%	20.6%	17.9%

Source: TPDF, [A Labor Market Comparison: Why the Texas Model Supports Prosperity](#) (updated)

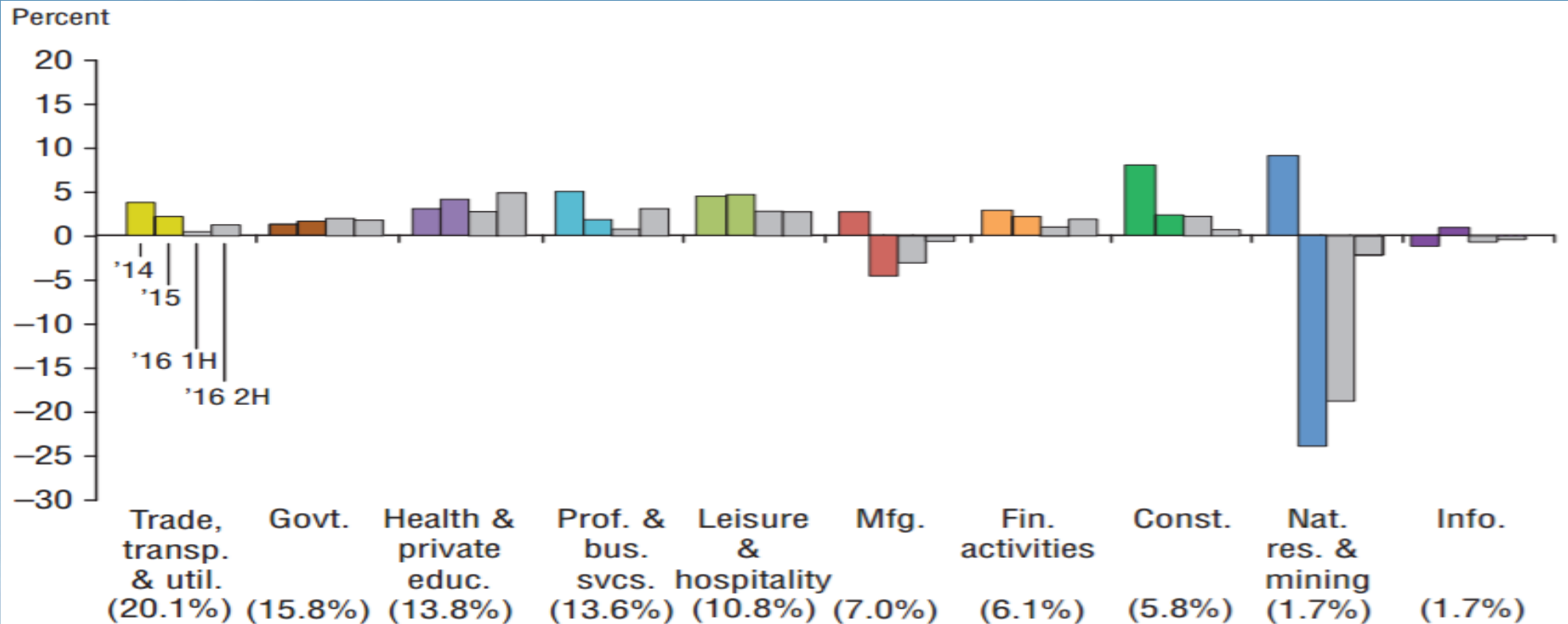
Texas, America's Jobs Engine

Texas has created 27% of total U.S. employment increase since pre-Great Recession



DATA ARE CUMULATIVE MONTHLY TOTAL CIVILIAN EMPLOYMENT FROM
THE U.S. BUREAU OF LABOR STATISTICS FROM 12/2007 TO 3/2017.

All Oil & Gas Jobs in Texas? 2014-16

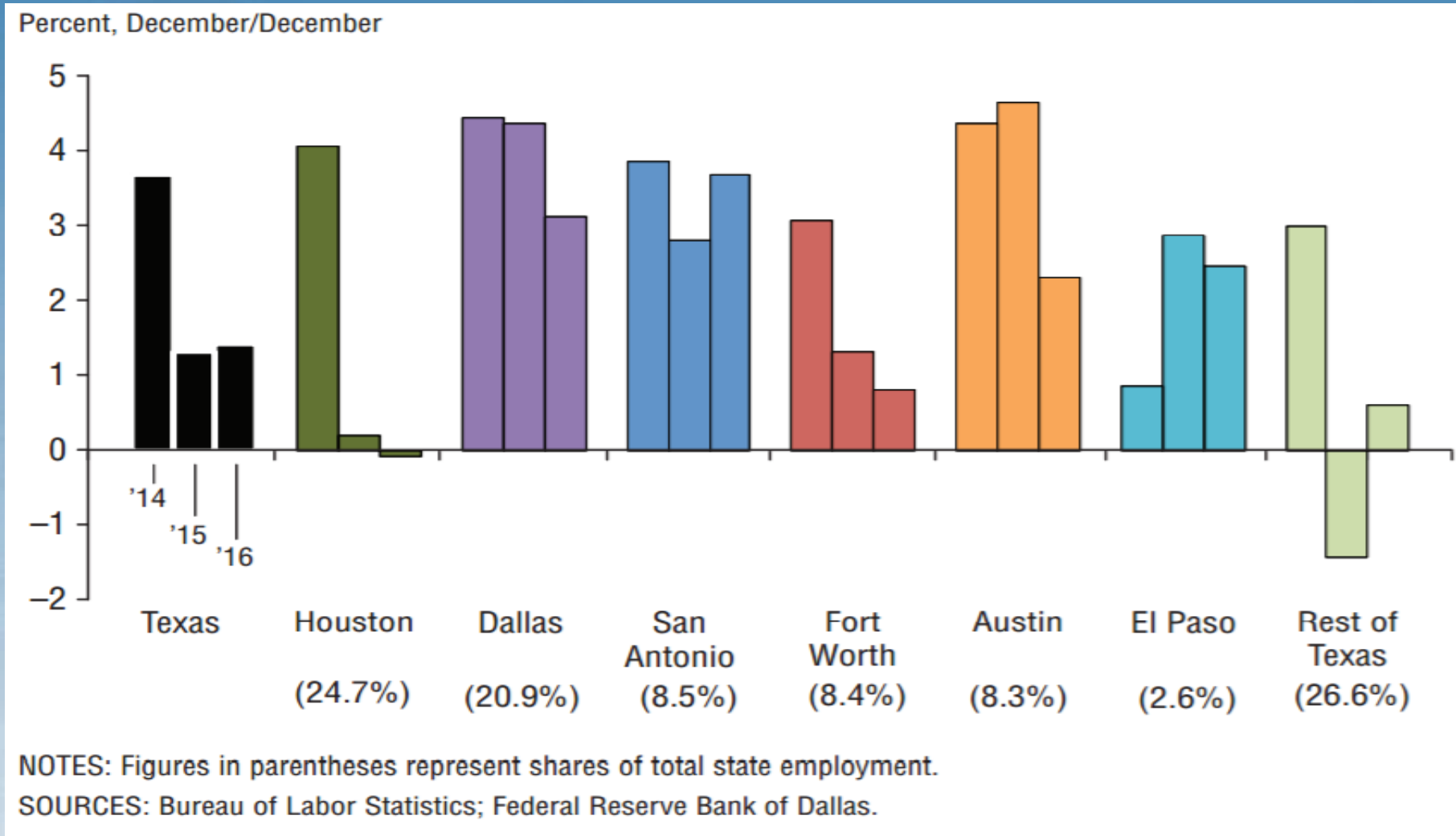


NOTES: Nongray bars represent December over December growth; gray bars represent annualized growth in the first and second halves of 2016. Figures in parentheses represent shares of total nonfarm employment as of December 2016.

SOURCES: Bureau of Labor Statistics, adjustments by the Federal Reserve Bank of Dallas.

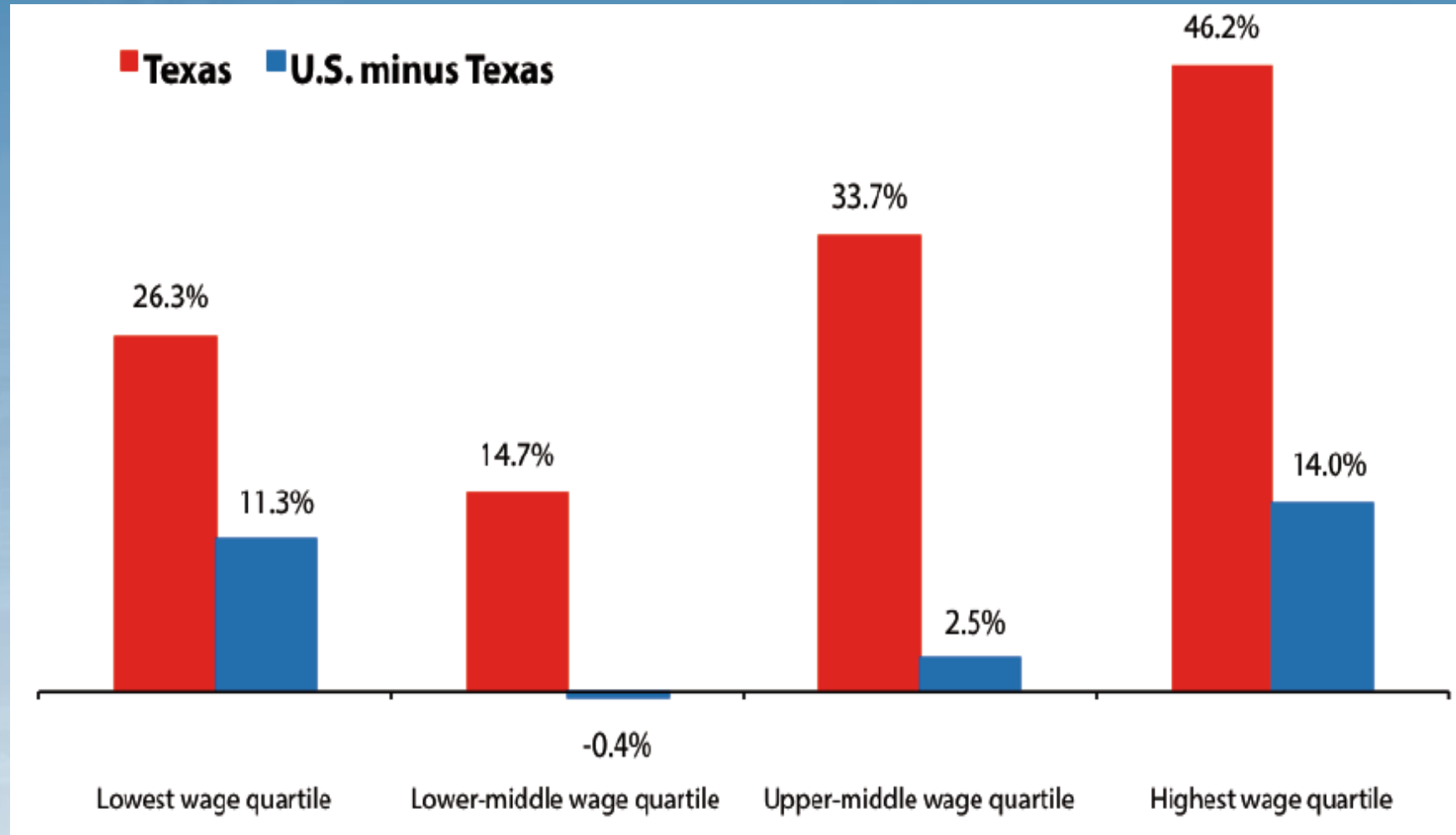
Source: Dallas Fed, [Texas Economy Shifting Into Second Gear In 2017](#), First Quarter 2017.

Job Creation Among Texas' Metro Areas? 2014-16



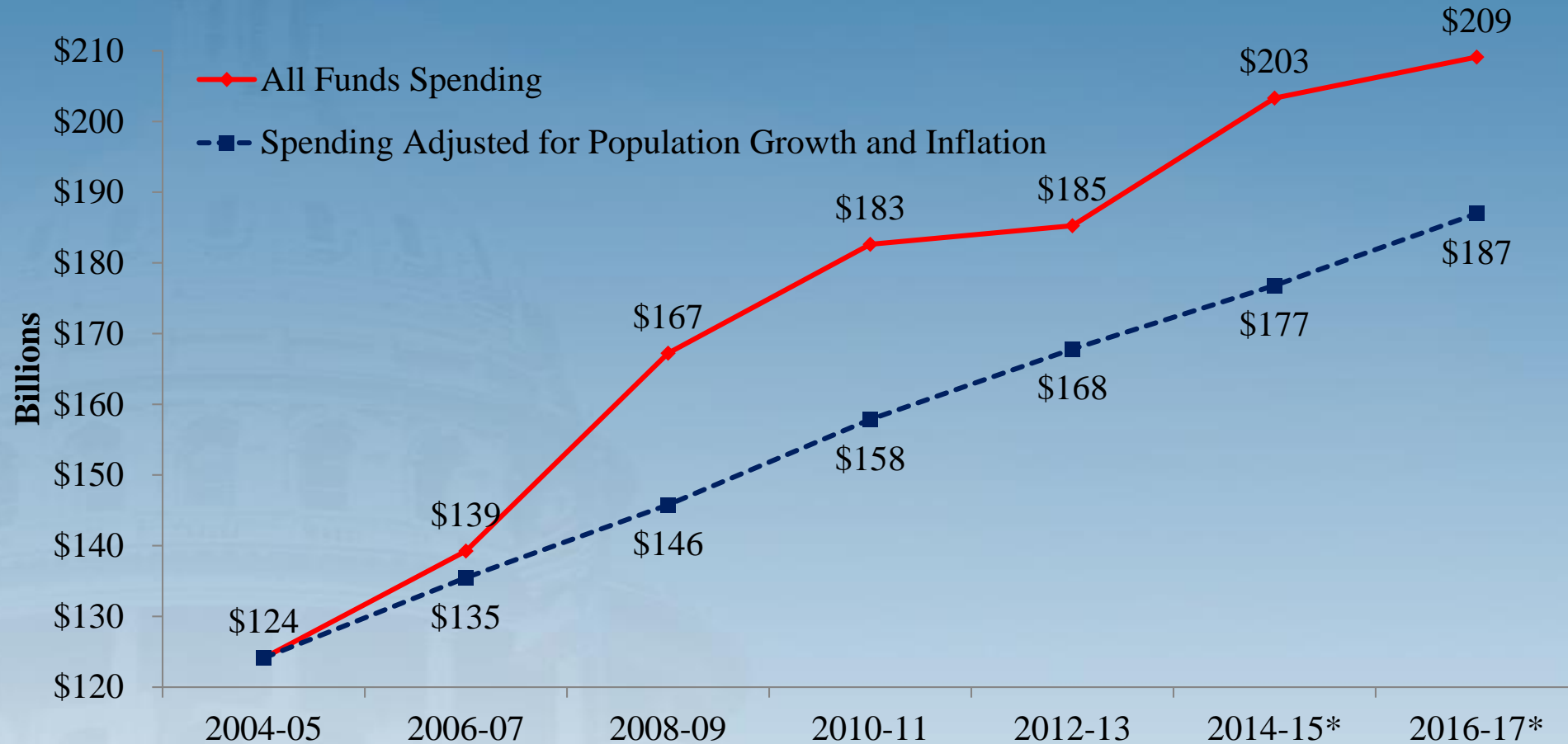
Source: Dallas Fed, [Texas Economy Shifting Into Second Gear In 2017](#), First Quarter 2017.

Just Low Wage Jobs in Texas? 2000-14

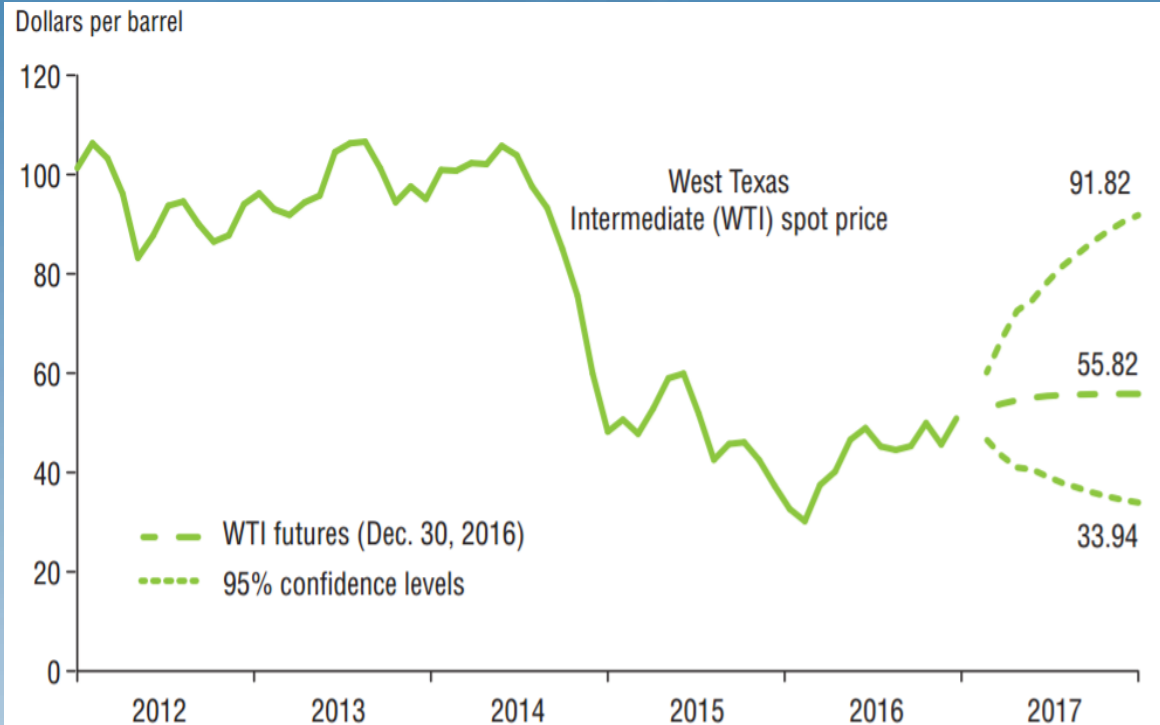


Source: TPPF, [*A Labor Market Comparison: Why the Texas Model Supports Prosperity*](#)

Texas State Revenue or Spending Problem?



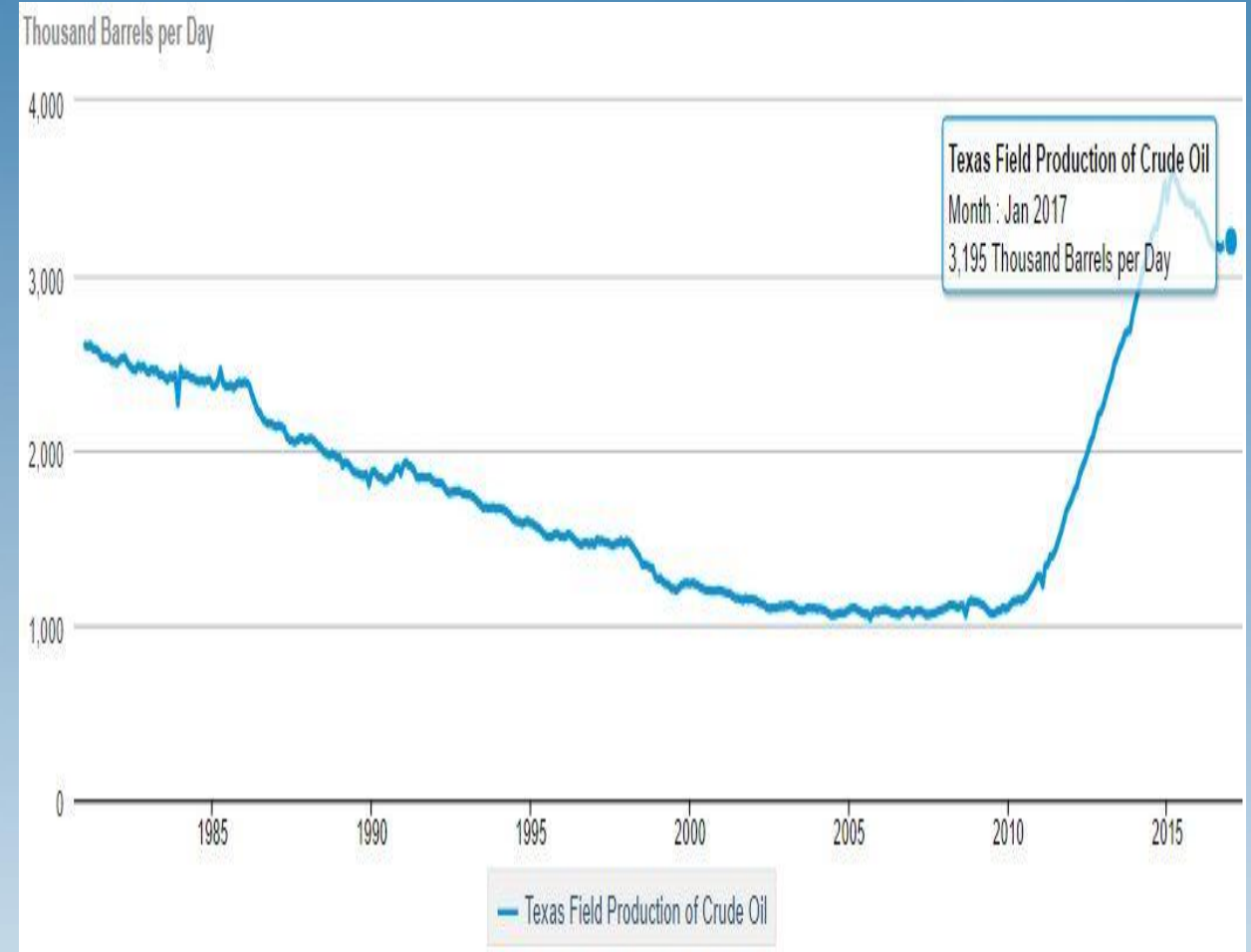
What about Oil?



NOTE: Confidence bands are calculated based on implied volatility of underlying contracts. For more information, see the Energy Information Administration Short-Term Energy Outlook Supplement documentation at www.eia.gov/outlooks/steo/special/pdf/2009_sp_05.pdf.

SOURCES: Bloomberg; Energy Information Administration; Federal Reserve Bank of Dallas calculations.

Source: Dallas Fed, [Texas Economy Shifting Into Second Gear In 2017](#), First Quarter 2017.



Source: [Energy Information Administration](#)

American Dream is not dead – it has simply moved to the **Lone Star State.**

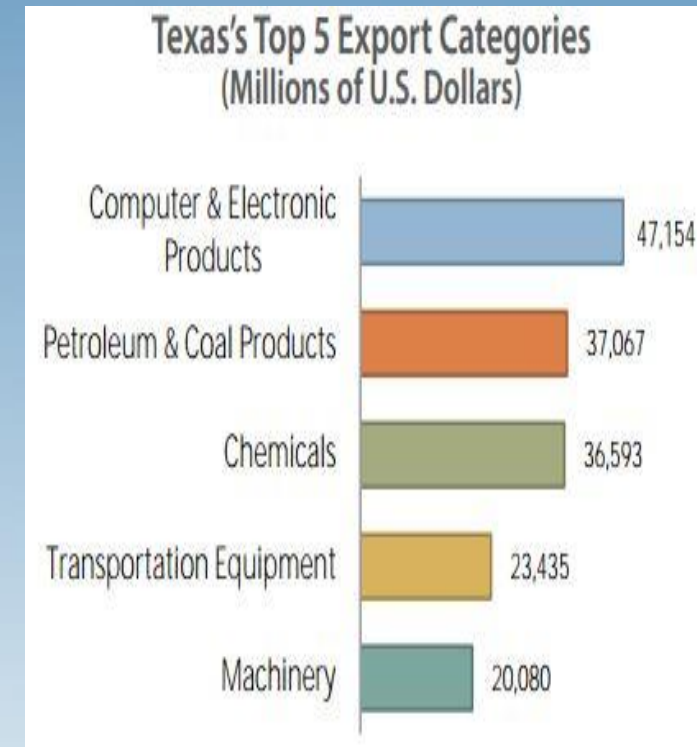
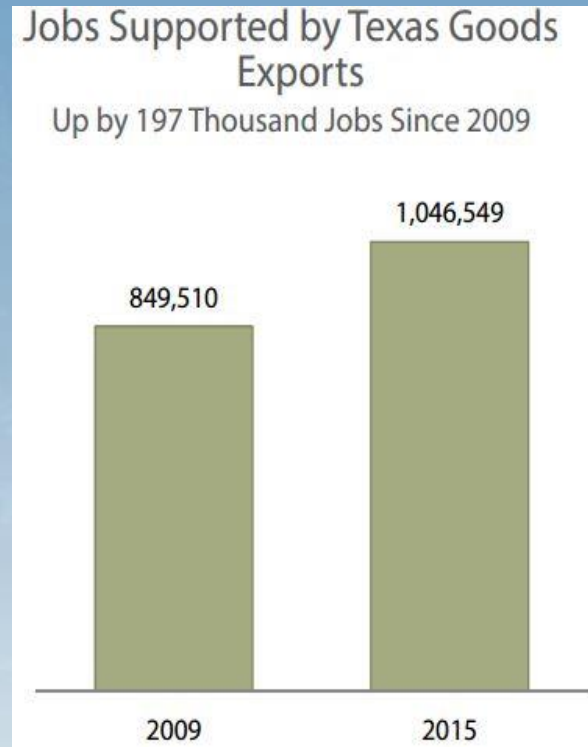


Will President Trump Make America Like Texas?

- Regulatory reform
 - Energy: Clean Power Plan
 - Banking: Dodd-Frank
 - Healthcare: Affordable Care Act
 - Infrastructure plan: Public-Private Partnerships
- Personal income tax changes & Corp tax 15%
 - How to deal with potentially trillions of more dollars in debt? Maybe \$4 trillion over 10 years
 - Revenue neutrality versus Budget neutrality
 - Entitlement reform?

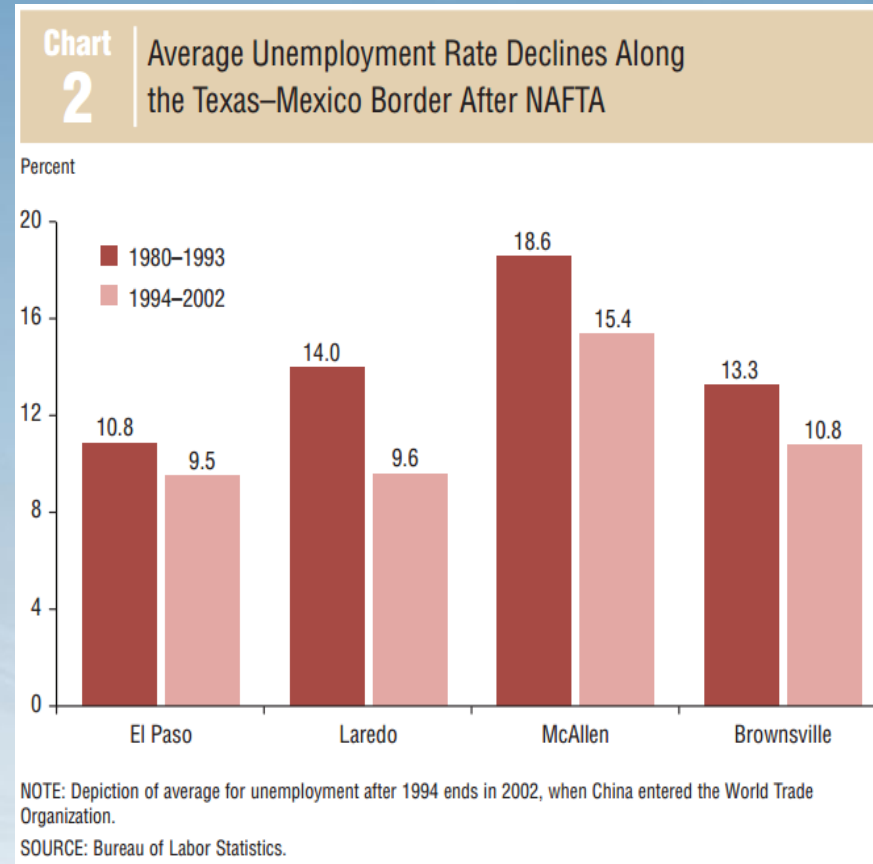
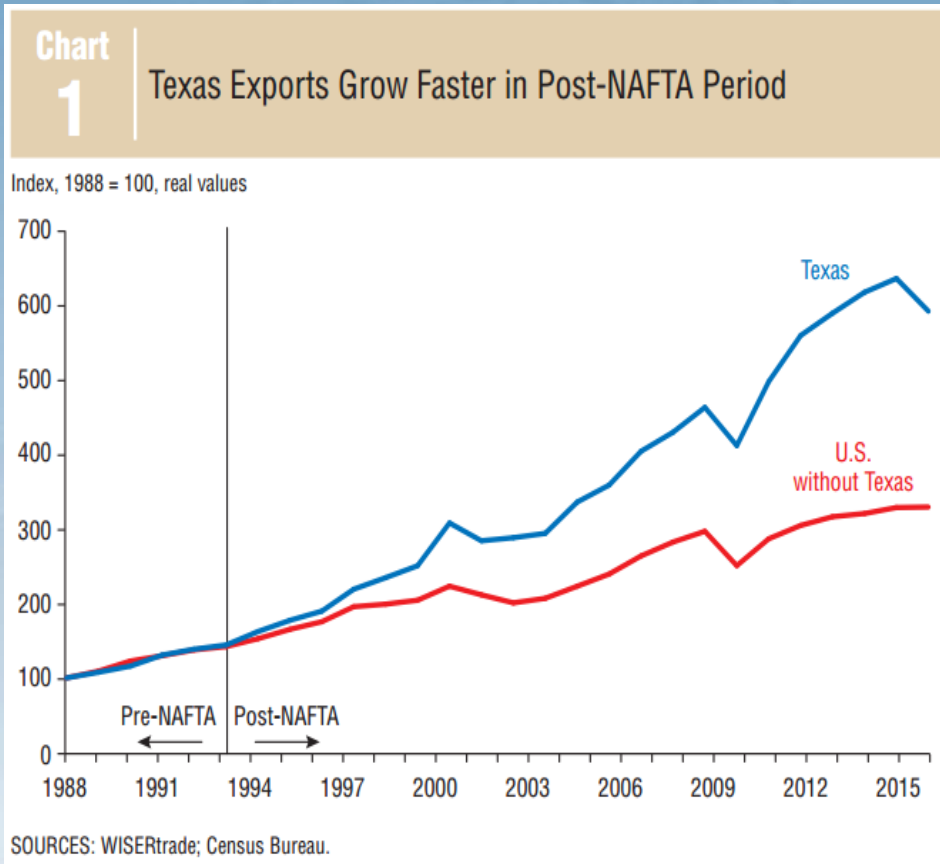
Protectionism?

- Free trade agreement changes?
 - Texas: \$113 B exports & \$118 B imports to NAFTA countries



Texas and NAFTA?

- Texas' Ability to Cope after NAFTA
- Economic benefits of NAFTA outweigh costs in Texas: diversification & shocks



Institutions Matter

"The curious task of economics is to demonstrate to men how little they really know about what they imagine they can design."

Friedrich Hayek, "The Fatal Conceit: The Errors of Socialism" 1988



"Practical men who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist."

John Maynard Keynes, "The General Theory of Employment, Interest and Money" 1936



Takeaways

- Heightened consumer & business confidence
- Much uncertainty but remain calm
- Key: Firm personal and institutional finances to weather storms
- Assure that your institution matters

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