

State of the Economy

A National & State-Level Examination

CFO Leadership Council Meeting

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The Texas Public Policy Foundation is a 501(c)3 non-profit, non-partisan research institute.

The Foundation's mission is to promote and defend liberty, personal responsibility, and free enterprise in Texas and the nation by educating and affecting policymakers and the Texas public policy debate with academically sound research and outreach.

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The public is demanding a different direction for their government, and the Texas Public Policy Foundation is providing the ideas that enable policymakers to chart that new course.

The Foundation is guided by these principles:

- Liberty**
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Institutions Matter Economy & Government

Why Nations Fail

➤ Acemoglu and Robinson (2012)

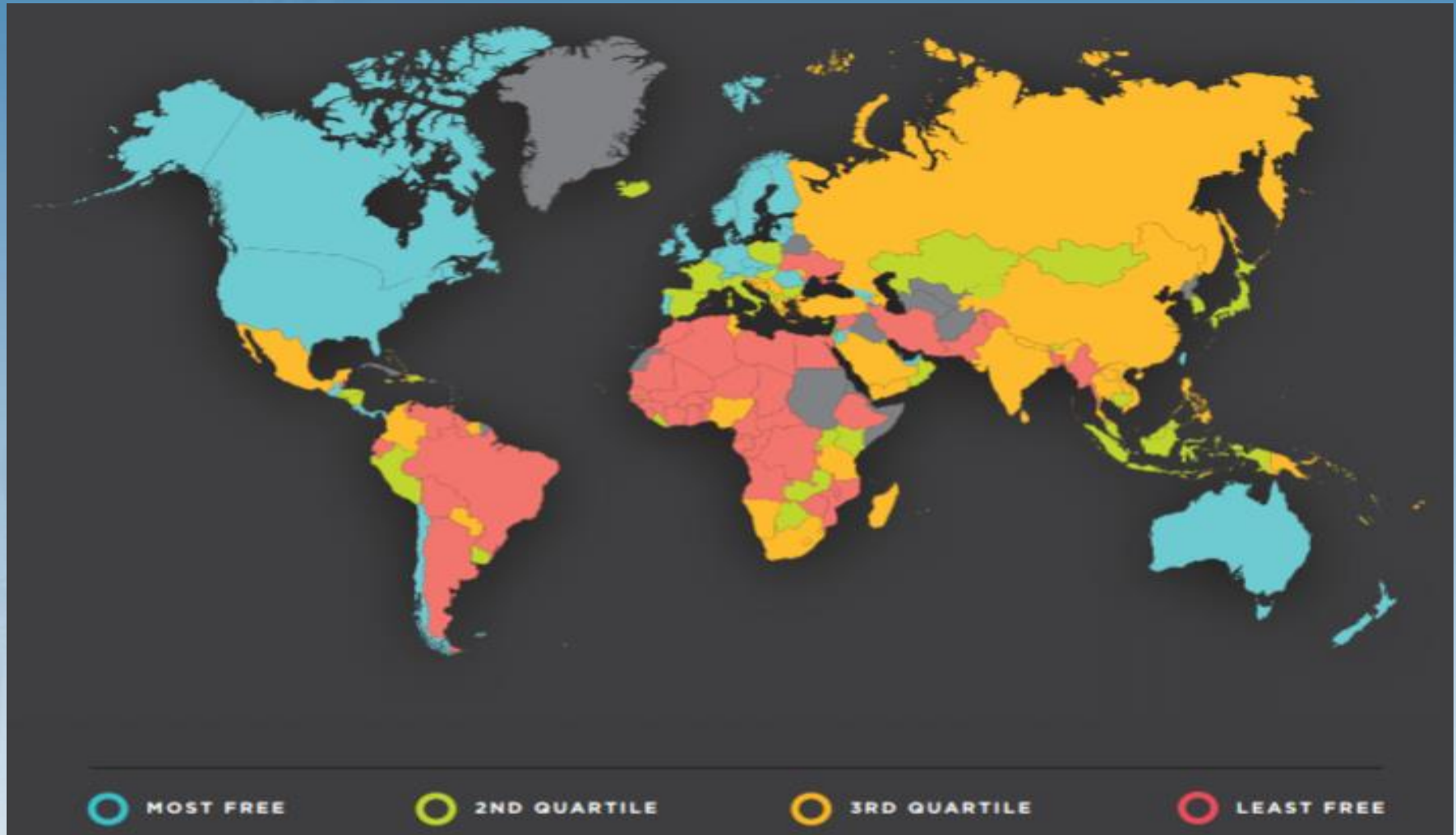
Extractive institutions



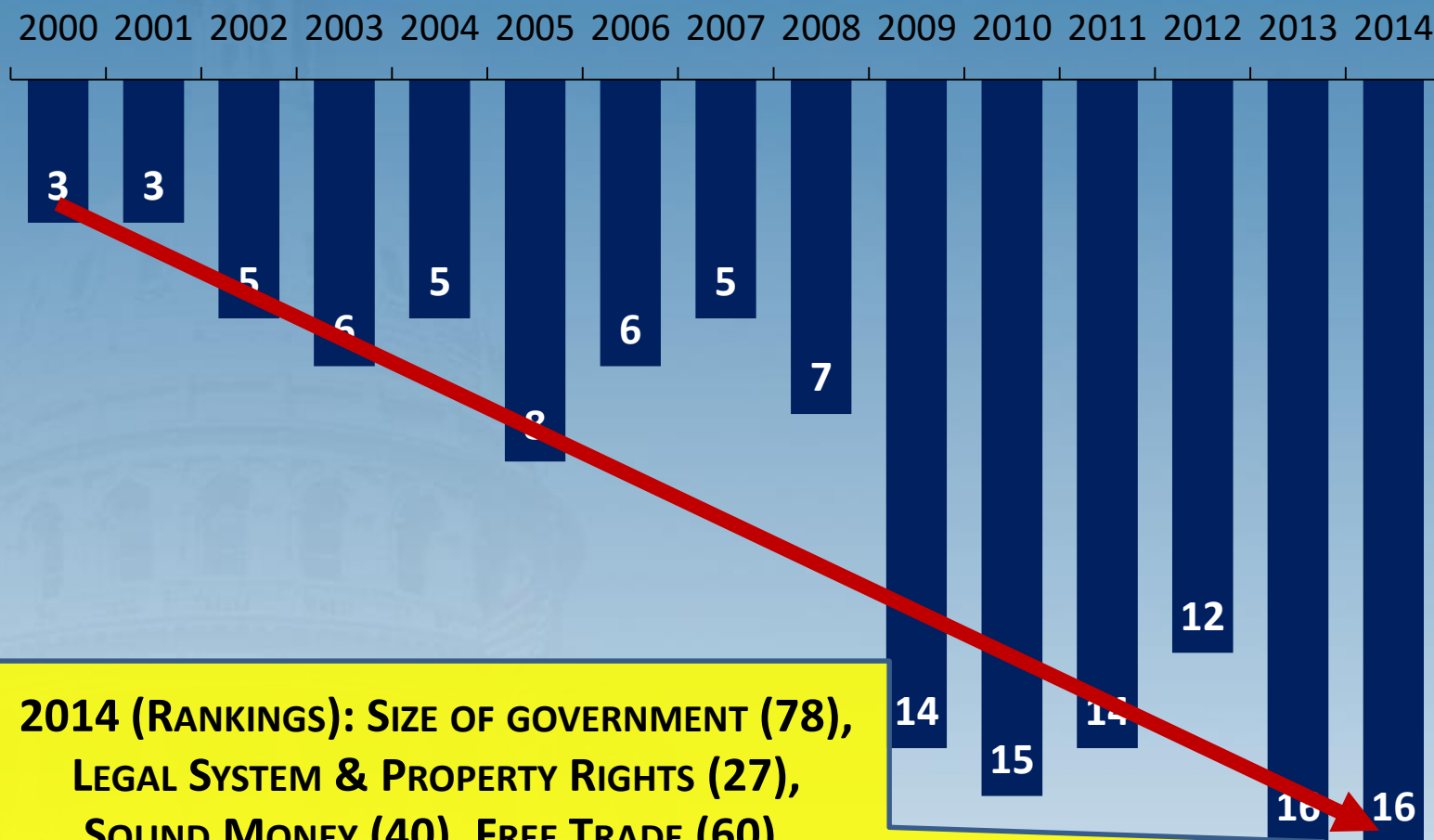
Inclusive Institutions



Economic Freedom of the World



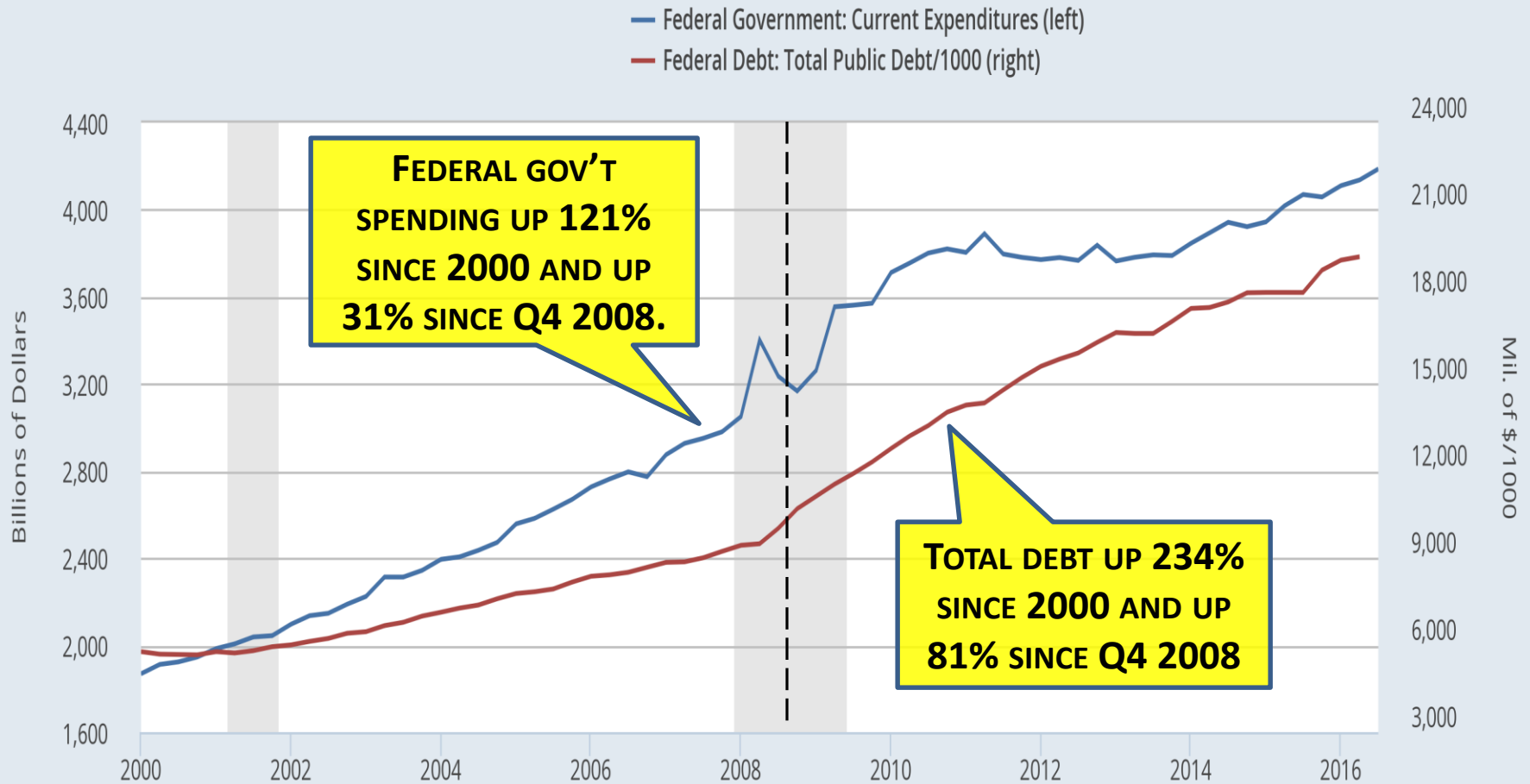
Decline in U.S. Economic Freedom



**2014 (RANKINGS): SIZE OF GOVERNMENT (78),
LEGAL SYSTEM & PROPERTY RIGHTS (27),
SOUND MONEY (40), FREE TRADE (60),
REGULATION (8)**

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

Fiscal Policy?



fred.stlouisfed.org

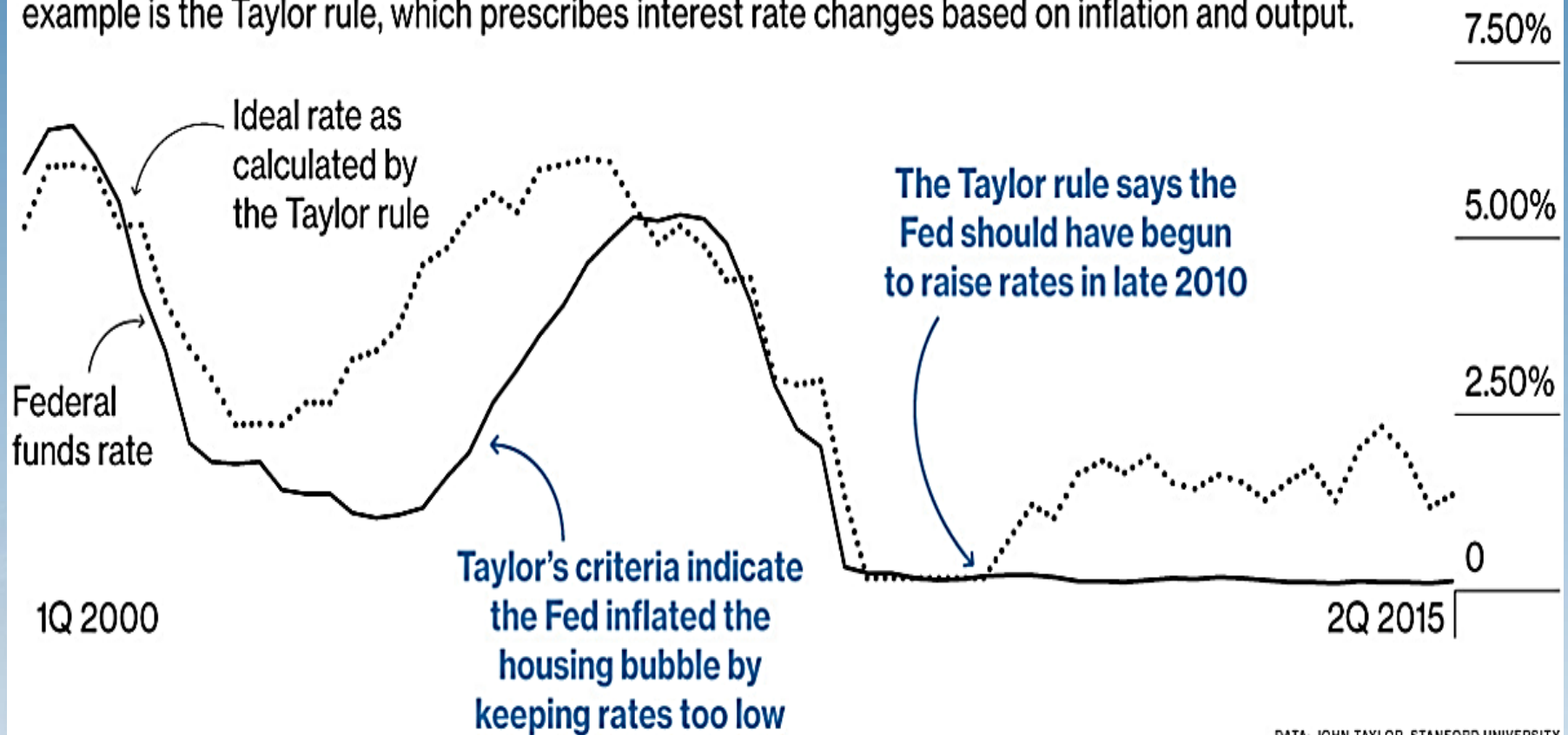
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Source: Fed FRED

Monetary Policy?

How a rate-setting rule could have changed Fed policy

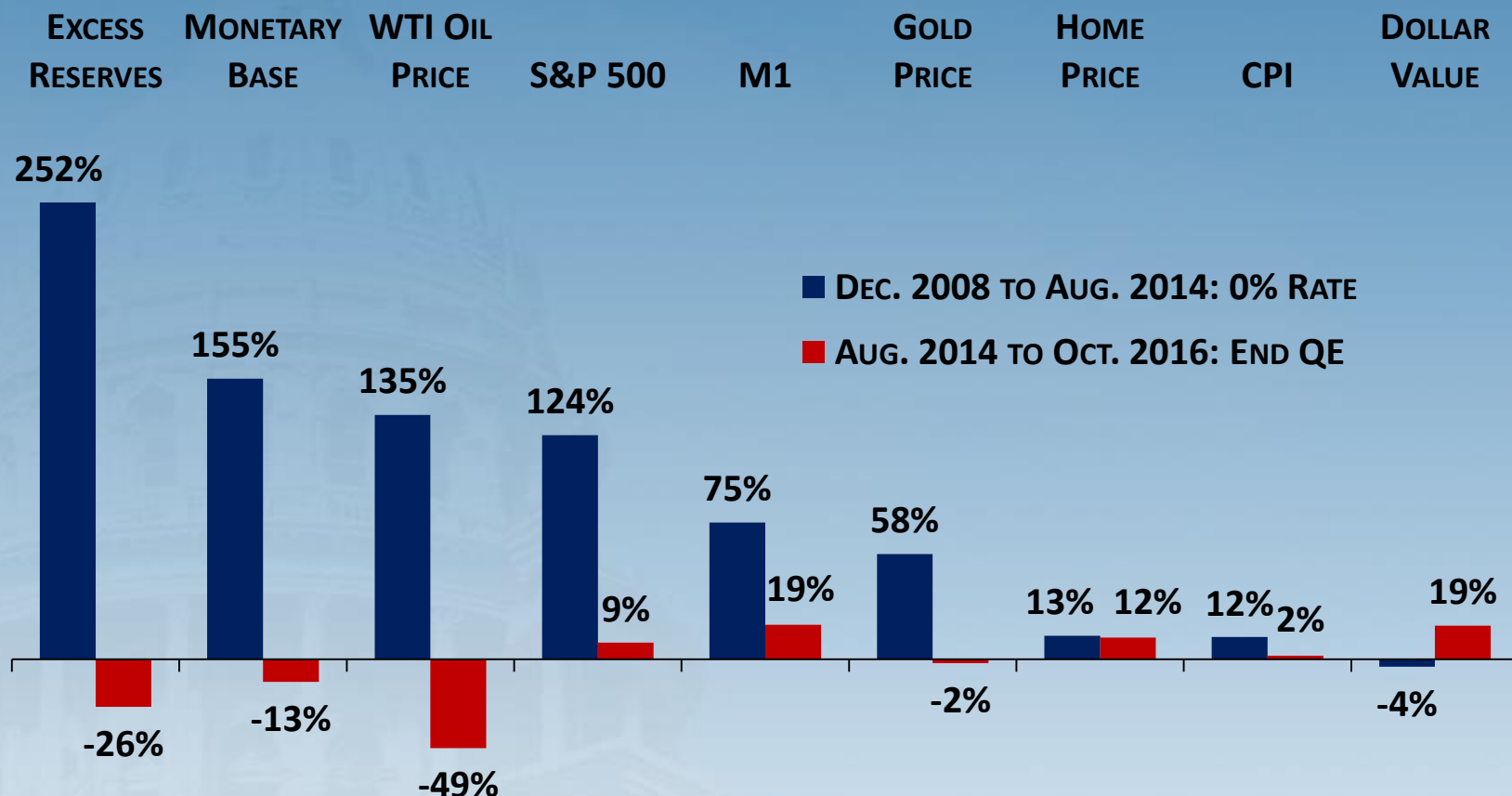
Some Republicans want the Federal Reserve to follow a rule in setting monetary policy. One example is the Taylor rule, which prescribes interest rate changes based on inflation and output.



DATA: JOHN TAYLOR, STANFORD UNIVERSITY

Source: [Bloomberg Business](#)

No inflation from Fed Actions?

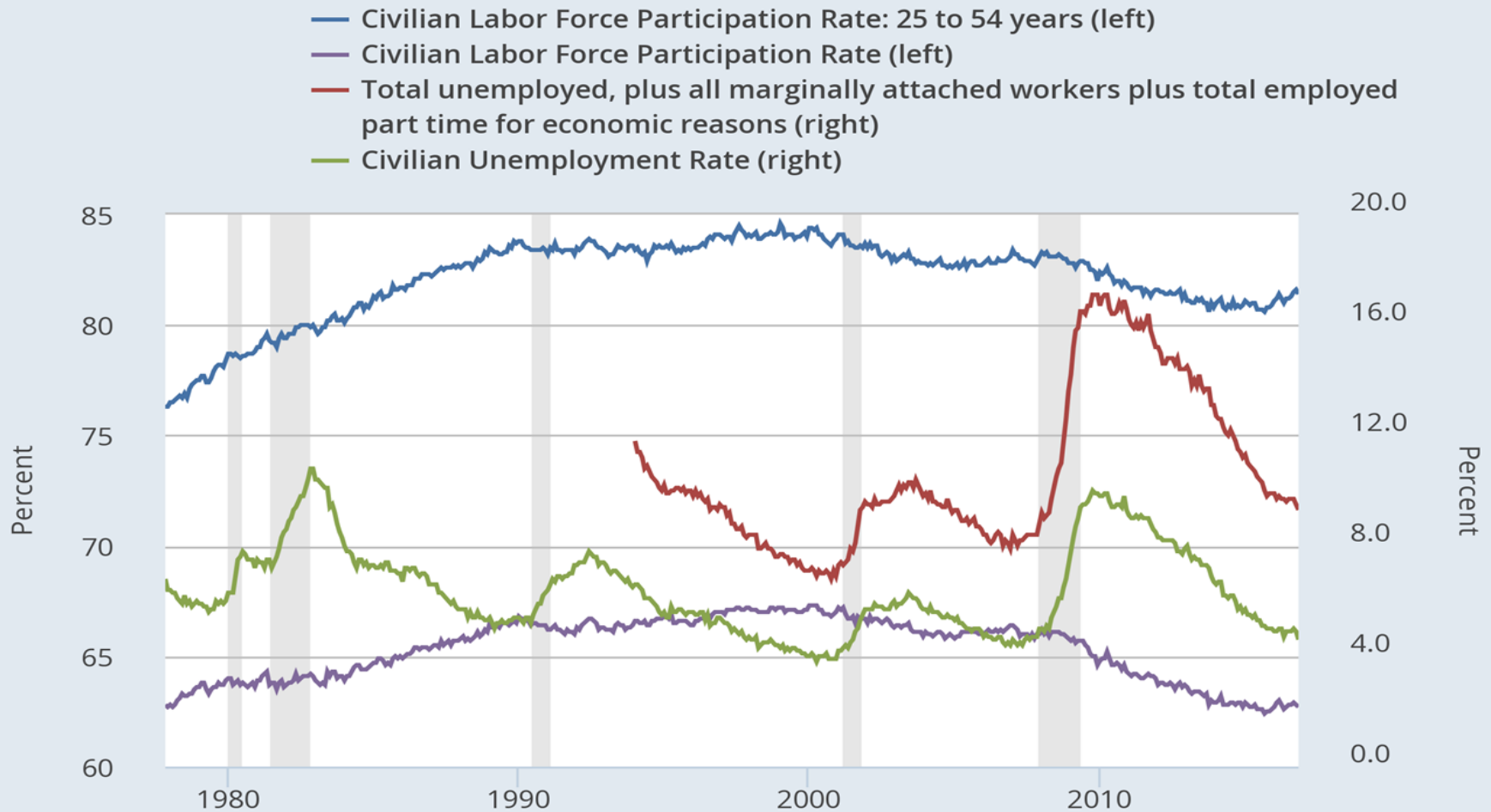


Source: Fed FRED

Desired outcomes?

- Slowest recovery since WWII: 2.1% real GDP
- Lower SOL from 2007 to 2015:
 - Population: 7%
 - Food stamp recipients: 74% (46 million)
 - Poverty level: 14% (43 million)
 - SSDI recipients: 25% (9 million)
- Mulligan (2012): Implicit marginal tax rates

Failed Federal Gov't Institutions

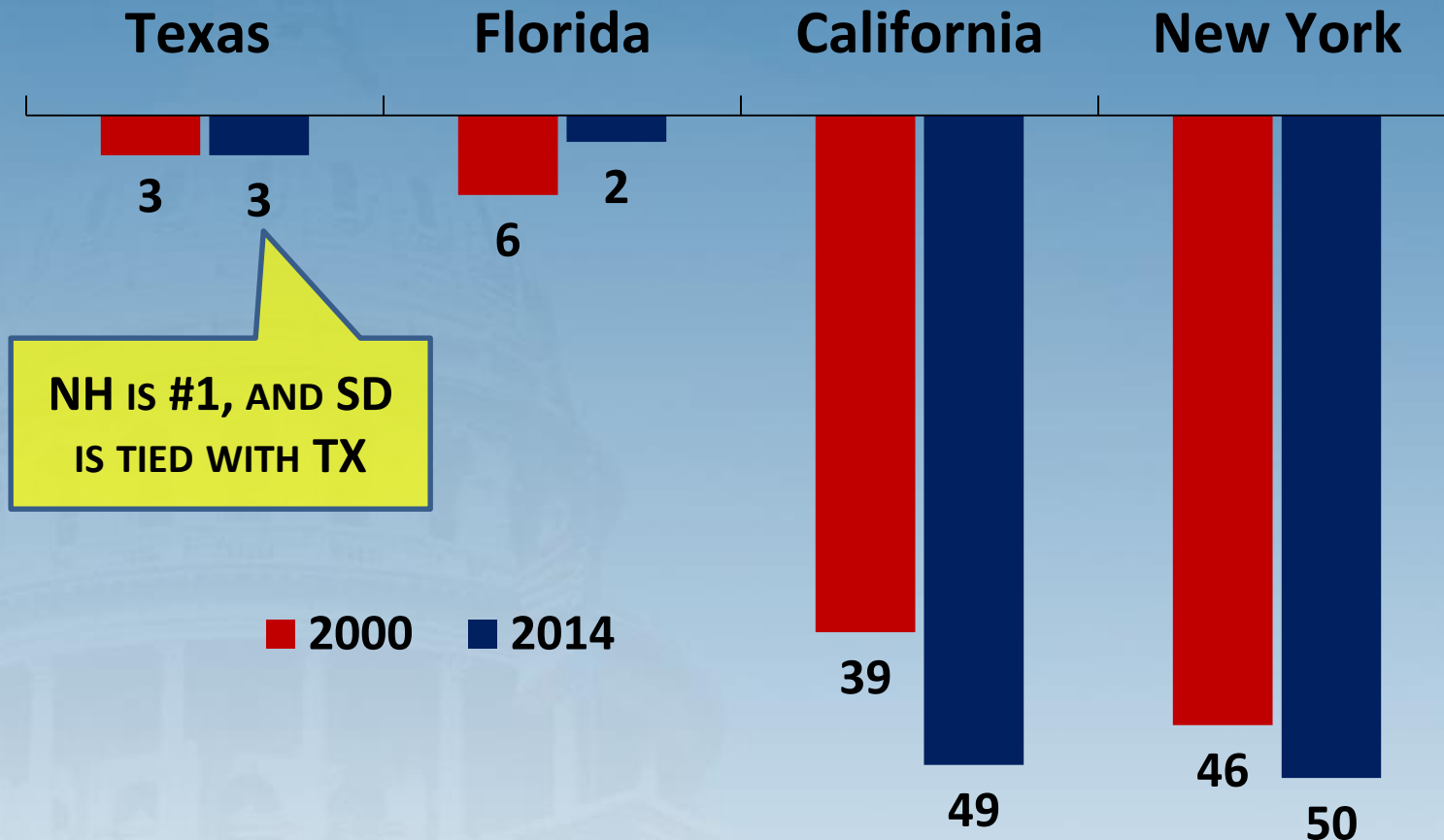


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Source: Fed FRED

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Institutions Matter: New Model?



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

Taxes Matter

FOR YEARS 2003-2013	AVG. OF 9 STATES WITHOUT AN INCOME TAX (ALASKA, FLORIDA, NEVADA, SOUTH DAKOTA, TEXAS, WASHINGTON, WYOMING, TENNESSEE & NEW HAMPSHIRE)	AVG. OF 9 STATES WITH HIGHEST INCOME TAX (CALIFORNIA, NEW YORK, HAWAII, OREGON, NEW JERSEY, MINNESOTA, VERMONT, MARYLAND & KENTUCKY)
POPULATION	+14.2%	+6.8%
NET DOMESTIC MIGRATION	+3.7%	-2.0%
NONFARM PAYROLL JOBS	+9.9%	+4.3%
PERSONAL INCOME	+57.5%	+47.8%
GROSS STATE PRODUCT	+61.9%	+47.0%
STATE & LOCAL TAX REVENUE	+82%	+54.3%

Texas Model Leads the Way

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

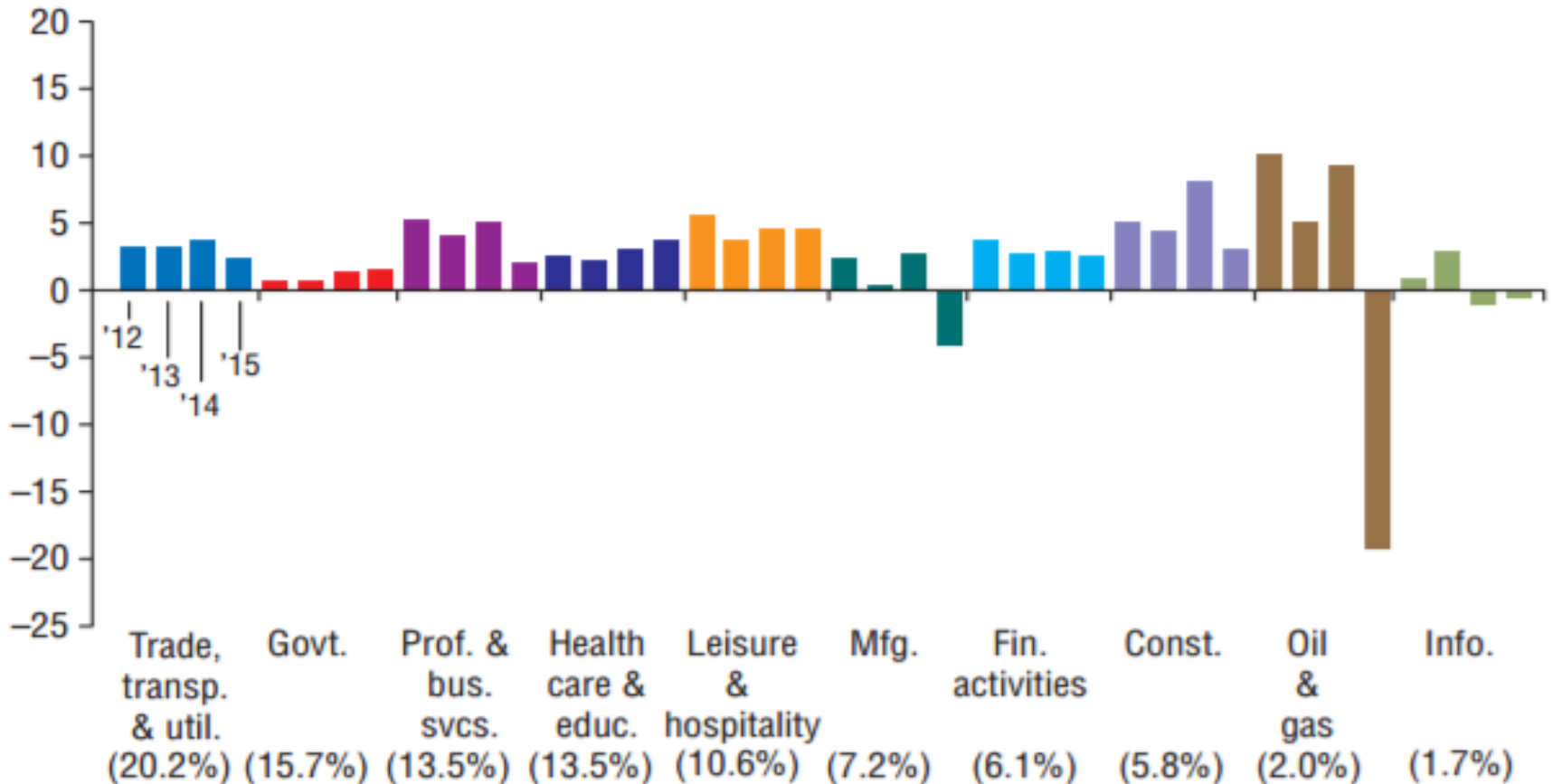
Poverty? Supplemental Poverty, 2014

SUPPLEMENTAL POVERTY MEASURE	ALL	WHITE	BLACK	HISPANIC
NATIONAL AVERAGE	15.9%	10.9%	25.3%	28.3%
TEXAS	15.9%	9.8%	20.7%	22.2%
FLORIDA	19.1%	13.3%	32.0%	29.2%
CALIFORNIA	23.4%	15.2%	31.8%	34.3%

Source: Kathleen Short, Census Bureau, [*The Supplemental Poverty Measure*](#)

Texas Job Creation, 2012-15

Percent change, December over December

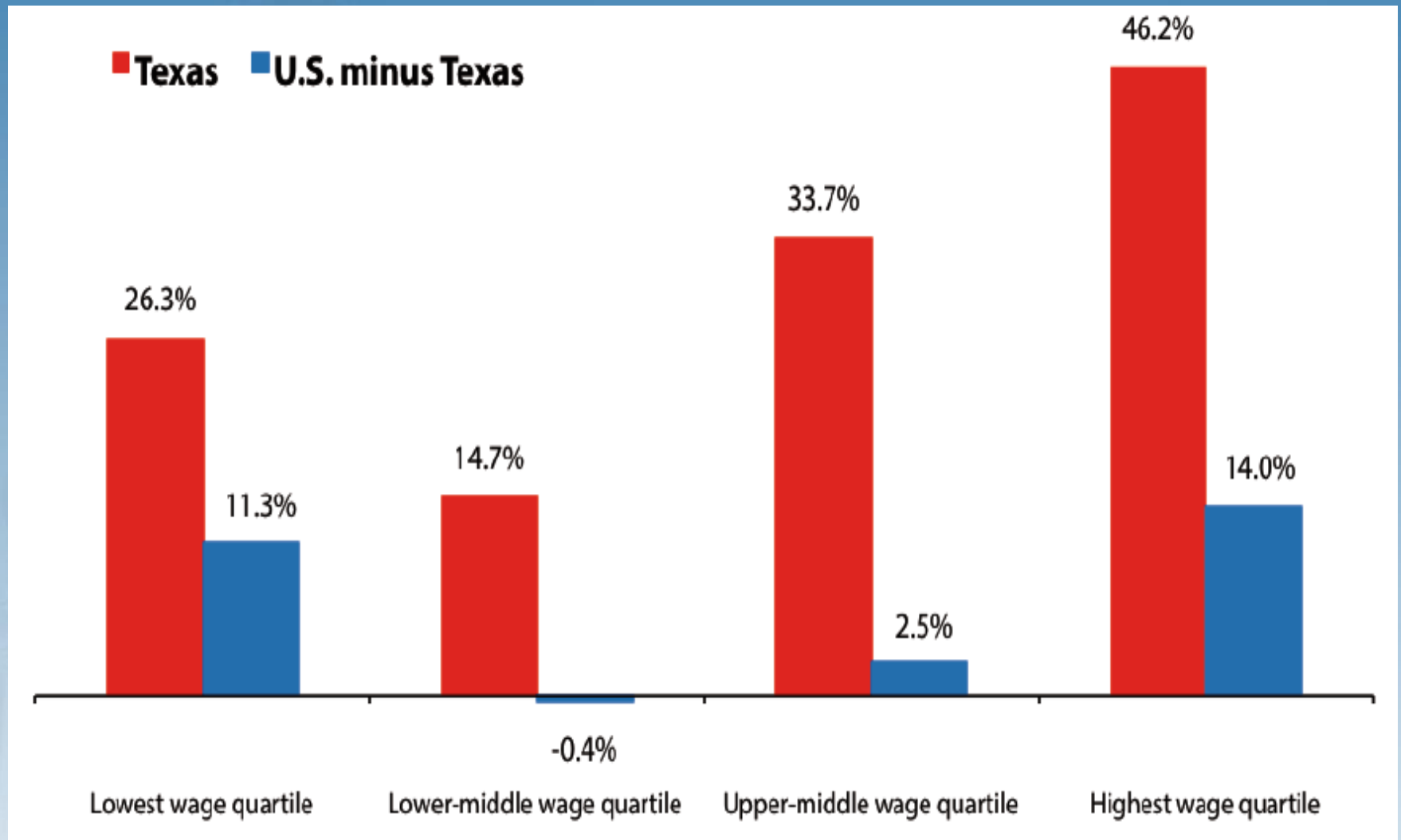


NOTE: Figures in parentheses represent share of total employment as of December 2015.

SOURCES: Bureau of Labor Statistics; Federal Reserve Bank of Dallas.

Source: Dallas Fed, [Texas Economy Remains Resilient, But Low Oil Prices Loom as Future Risk](#), First Quarter 2016.

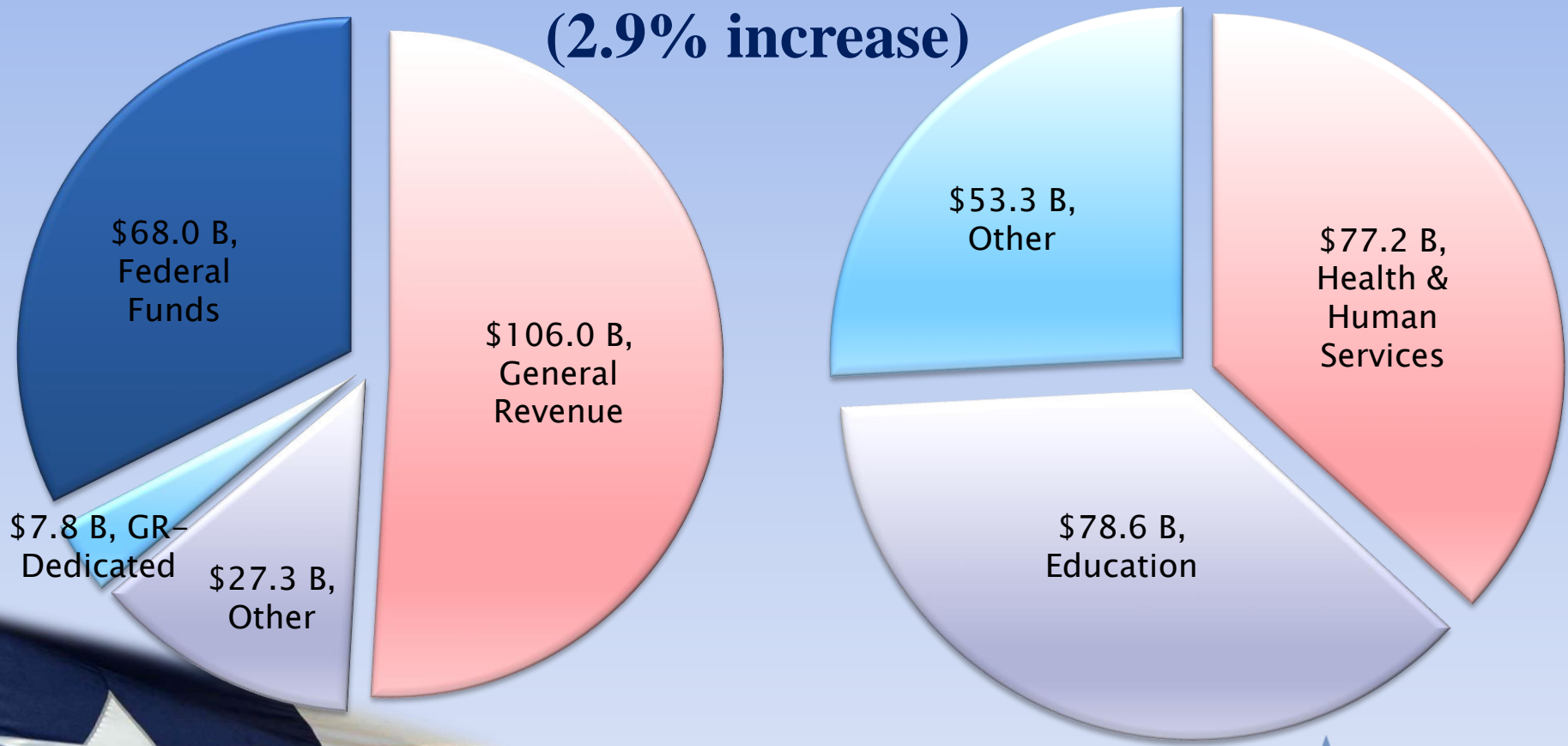
Texas: Not Just Low Wage Jobs, 00-14



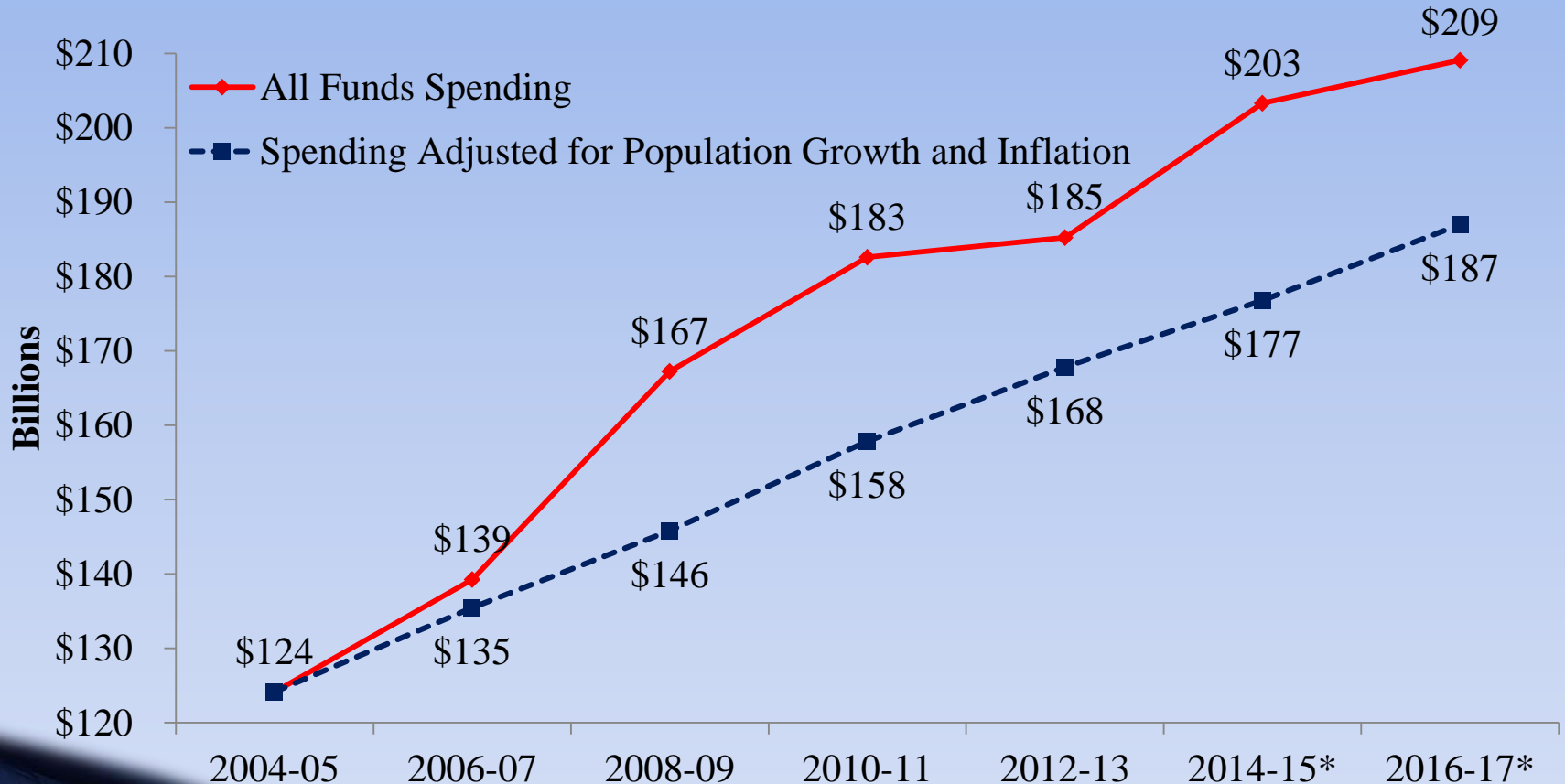
Source: TPPF, [*A Labor Market Comparison: Why the Texas Model Supports Prosperity*](#)

Real Texas Budget: Where we Stand

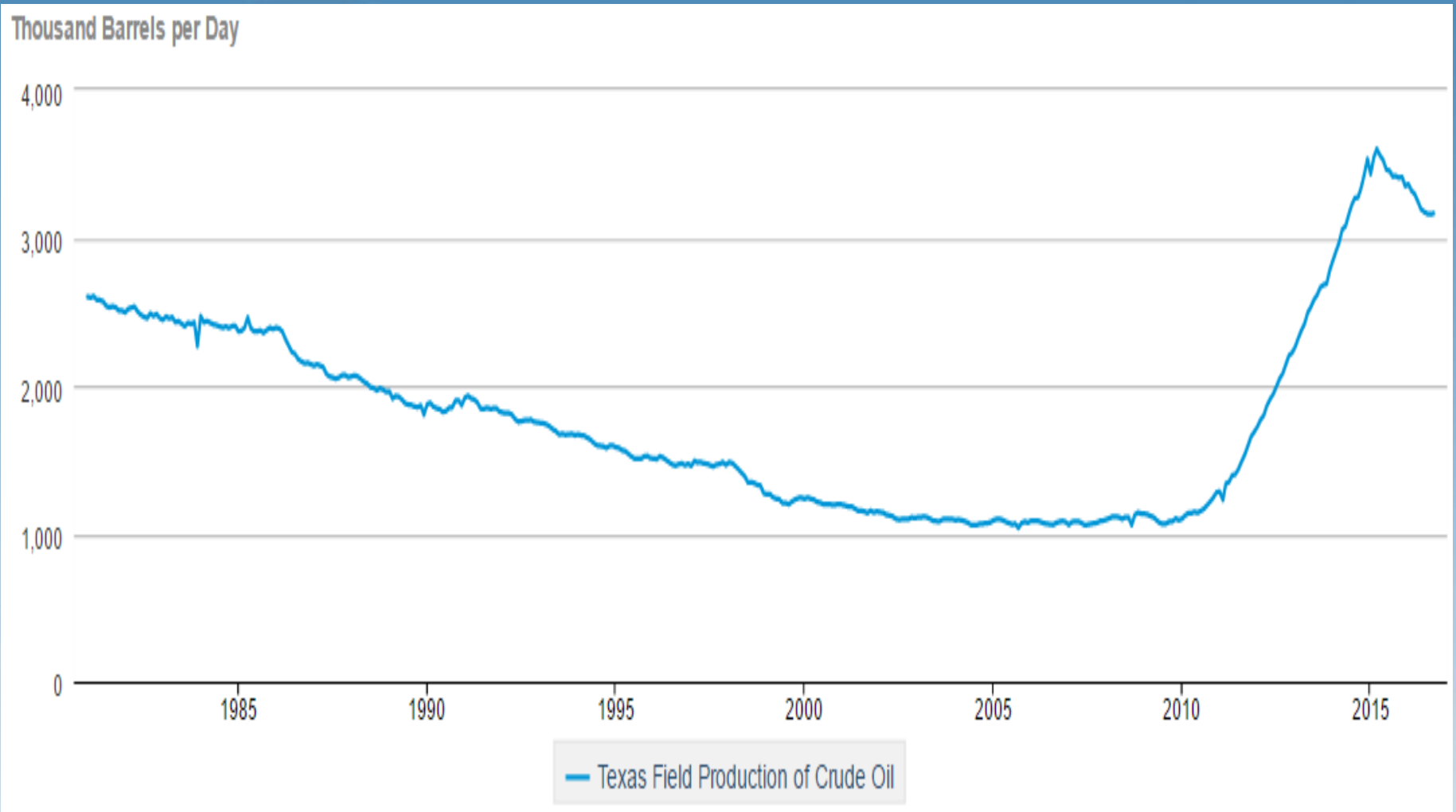
Total 2016-17 All Funds Approps: \$209.1 Billion
(2.9% increase)



State Budget Increases Above Basic Costs



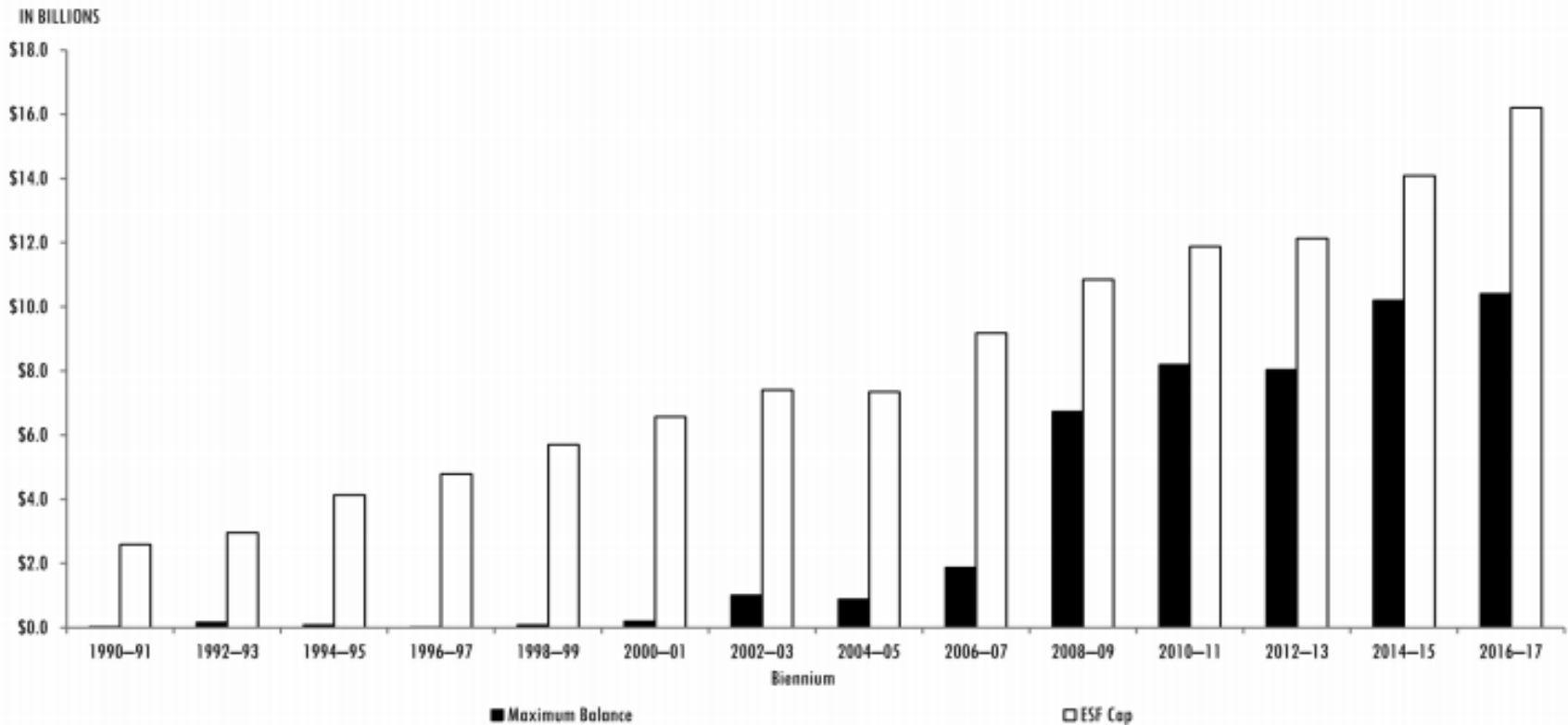
Oil Production Near Record Highs



Source: [Energy Information Administration](https://www.eia.gov)

Rainy Day Fund?

**ECONOMIC STABILIZATION CAP COMPARED TO THE MAXIMUM MONTHLY ENDING BALANCE
1990-91 TO 2016-17 BIENNIA**



NOTE: 2016-17 amounts are estimated.
SOURCE: Comptroller of Public Accounts.

Source: [Legislative Budget Board](#)

TPPF Fiscal Agenda

- ▶ Budget increase below pop+inf
- ▶ Eliminate business franchise (margin) tax
- ▶ Meaningful property tax reform
- ▶ Reform weak tax and expenditure limit
- ▶ Create the Sales Tax Reduction (STaR) Fund
- ▶ Increase budget transparency

Spending is ultimately taxation, must be cognizant of this fact.

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



Will Trump Make America Like Texas?

- Regulatory reform
 - Energy
 - Banking
 - Healthcare
- Personal income tax changes & Corp tax 15%

Table 1. Individual Income Tax Brackets Under the Trump Plan

Ordinary Income Rate	Capital Gains Rate	Single Filers	Married Joint Filers
12%	0%	\$0 to \$37,500	\$0 to \$75,000
25%	15%	\$37,500 to \$112,500	\$75,000 to \$225,000
33%	20%	\$112,500+	\$225,000+

How to Fund Debt Increase?

Table 3. Ten-Year Revenue Impact of the Trump Tax Plan (Billions of Dollars)

Tax	Static Revenue Impact (2016-2025)	Dynamic Revenue Impact (2016-2025)
Individual Income Taxes	-\$2,192 / -\$3,730	-\$1,058 / -\$2,458
Payroll Taxes	\$0	\$520 / 612
Corporate Income Taxes	-\$1,936	-\$1,958 / -\$1,959
Excise Taxes	\$0	\$44 / \$52
Estate and Gift Taxes	-\$240	-\$240
Other Revenue	\$0	\$52 / \$62
TOTAL	-\$4,368 / -\$5,906	-\$2,640 / -\$3,932

Source: Tax Foundation Taxes and Growth Model, March 2016.

Note: Individual items may not sum to total due to rounding. Numbers are listed with the higher-rate assumption first and the lower-rate assumption second, where applicable.

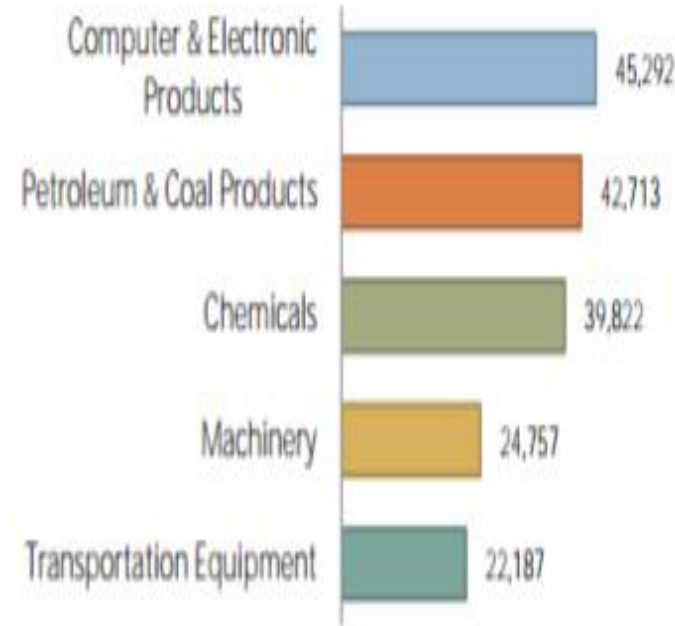
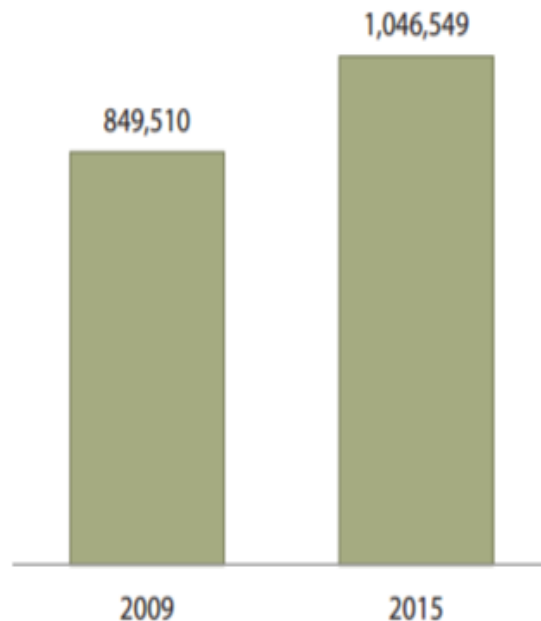
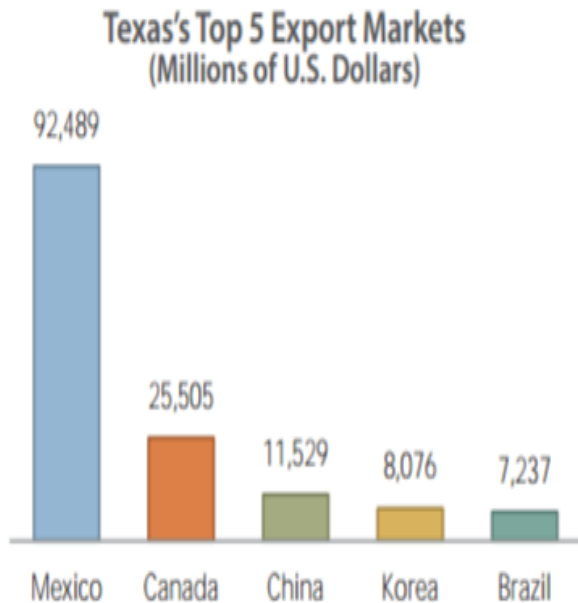
Protectionism?

- Free trade agreement changes?
 - Texas: \$118 B in exports & \$125 B in imports

\$248.2 billion

Jobs Supported by Texas Goods Exports
Up by 197 Thousand Jobs Since 2009

Texas's Top 5 Export Categories
(Millions of U.S. Dollars)



Trump's Infrastructure Plan?

- 82% tax credit for private investment in public projects
- Fed-subsidized loans: 5-to-1 leverage
- Funds projects generating revenue stream
- Feds behind for-profit businesses funding:
 - Building and operating roads, bridges, tunnels, mass-transit systems of various types, and water infrastructure

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

- Glad the election is over
- Calm: Much uncertainty remains
- Key: Firm finances to weather storms
- Make sure that your institutions matter

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