

Do Institutions Matter to Trade and Prosperity?

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Institutions Matter

Social, Economic, Political

Why Do People Prosper?

➤ Smith, Hayek, Buchanan, North, Friedman

➤ Acemoglu and Robinson

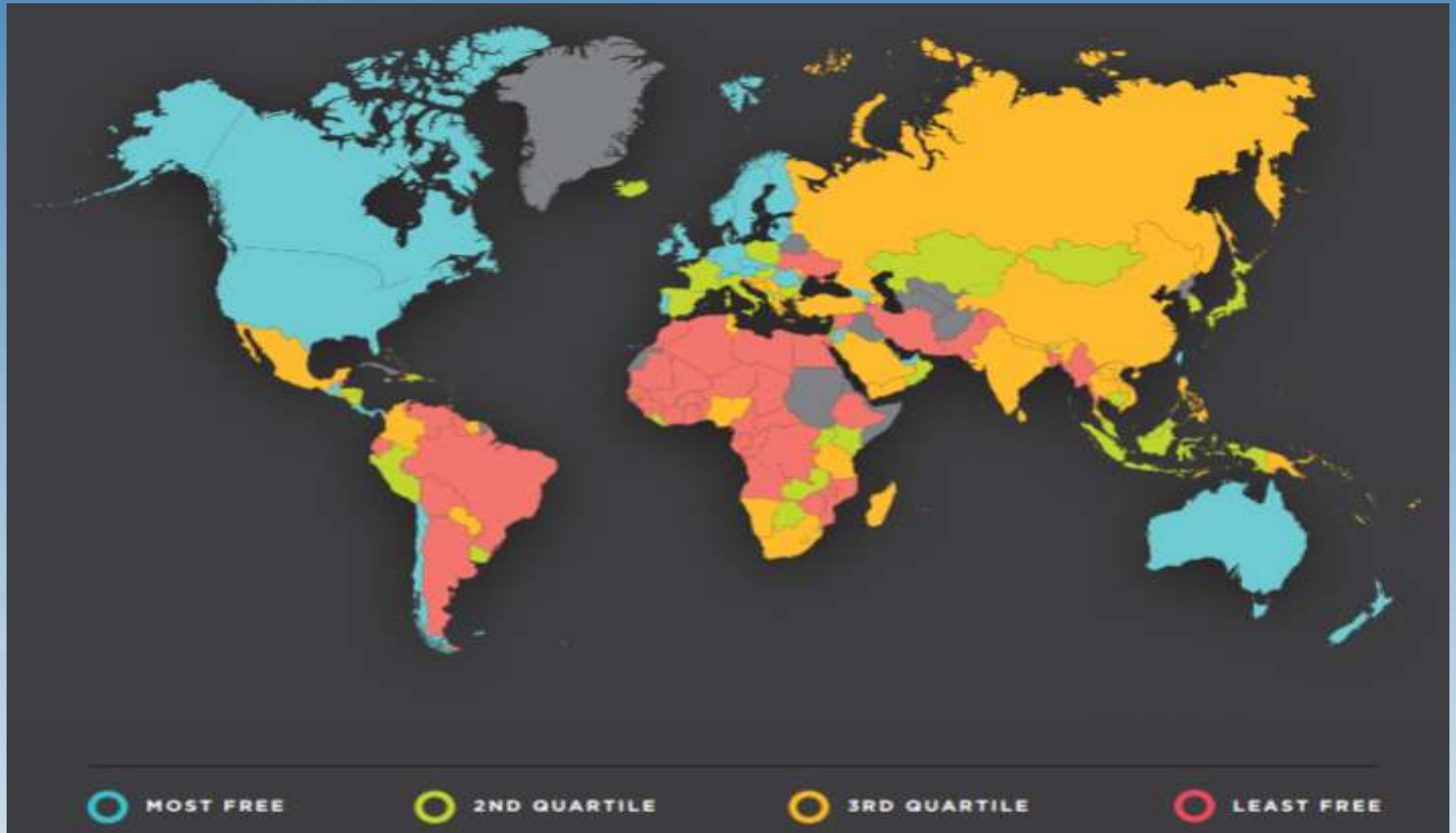
Extractive institutions



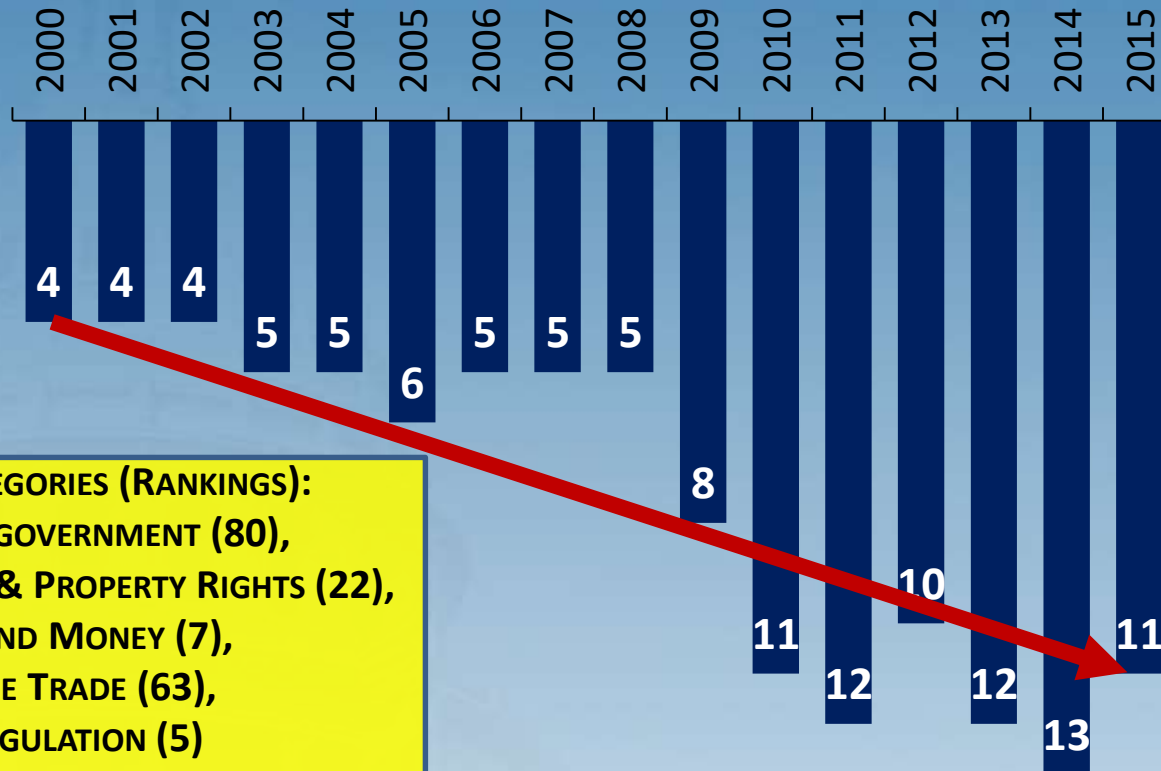
Inclusive Institutions



Economic Freedom of the World



Economic Freedom Ranking in the U.S.?



U.S. CATEGORIES (RANKINGS):

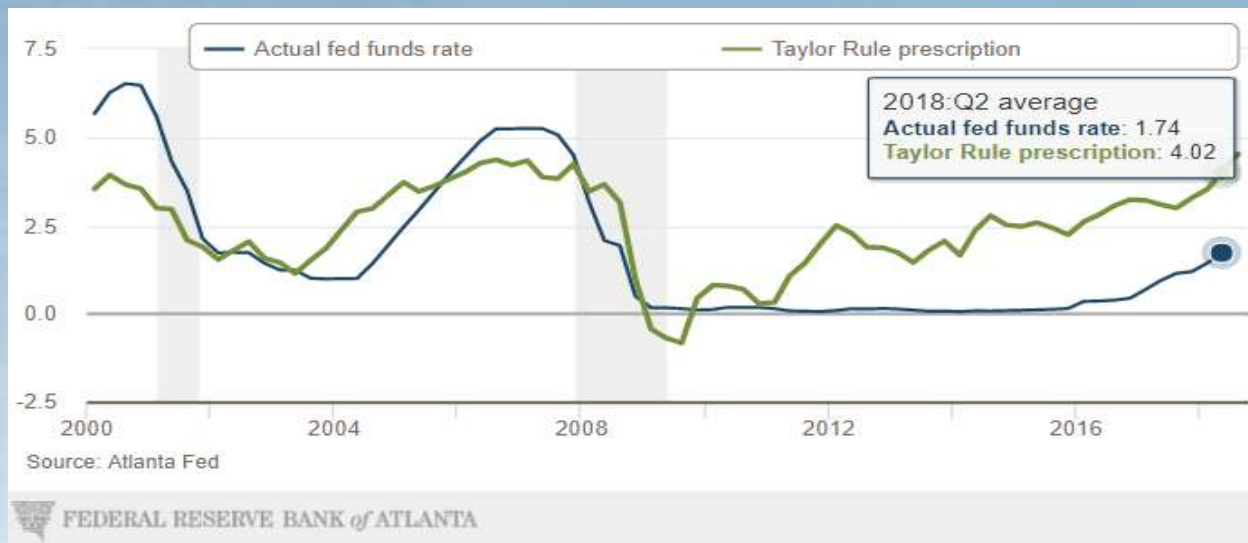
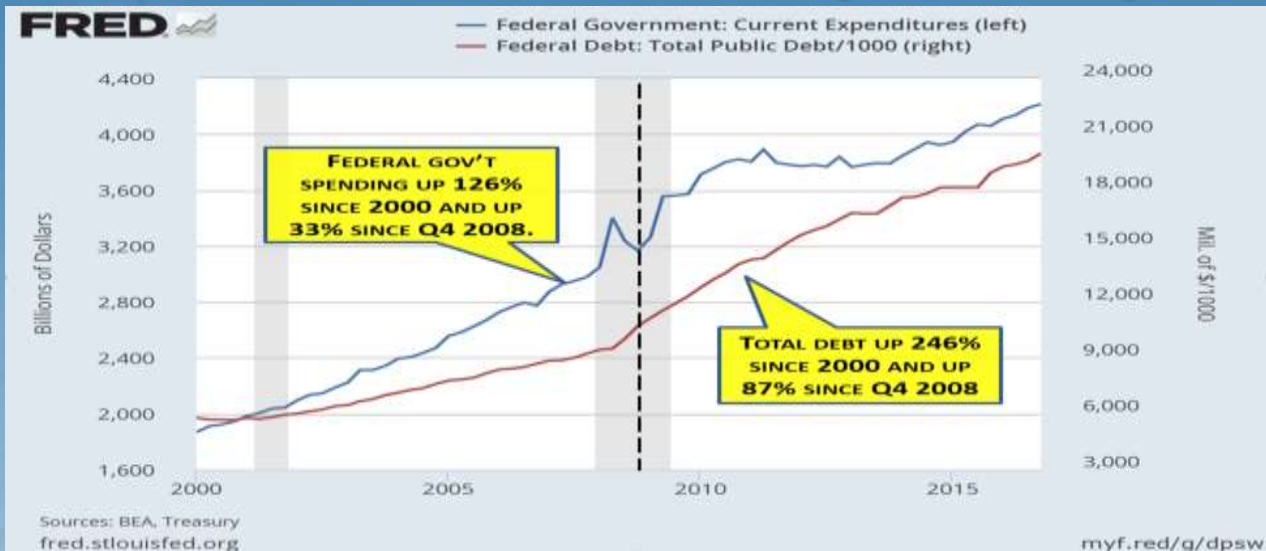
SIZE OF GOVERNMENT (80),
LEGAL SYSTEM & PROPERTY RIGHTS (22),
SOUND MONEY (7),
FREE TRADE (63),
REGULATION (5)

MEXICO RANKS (76):

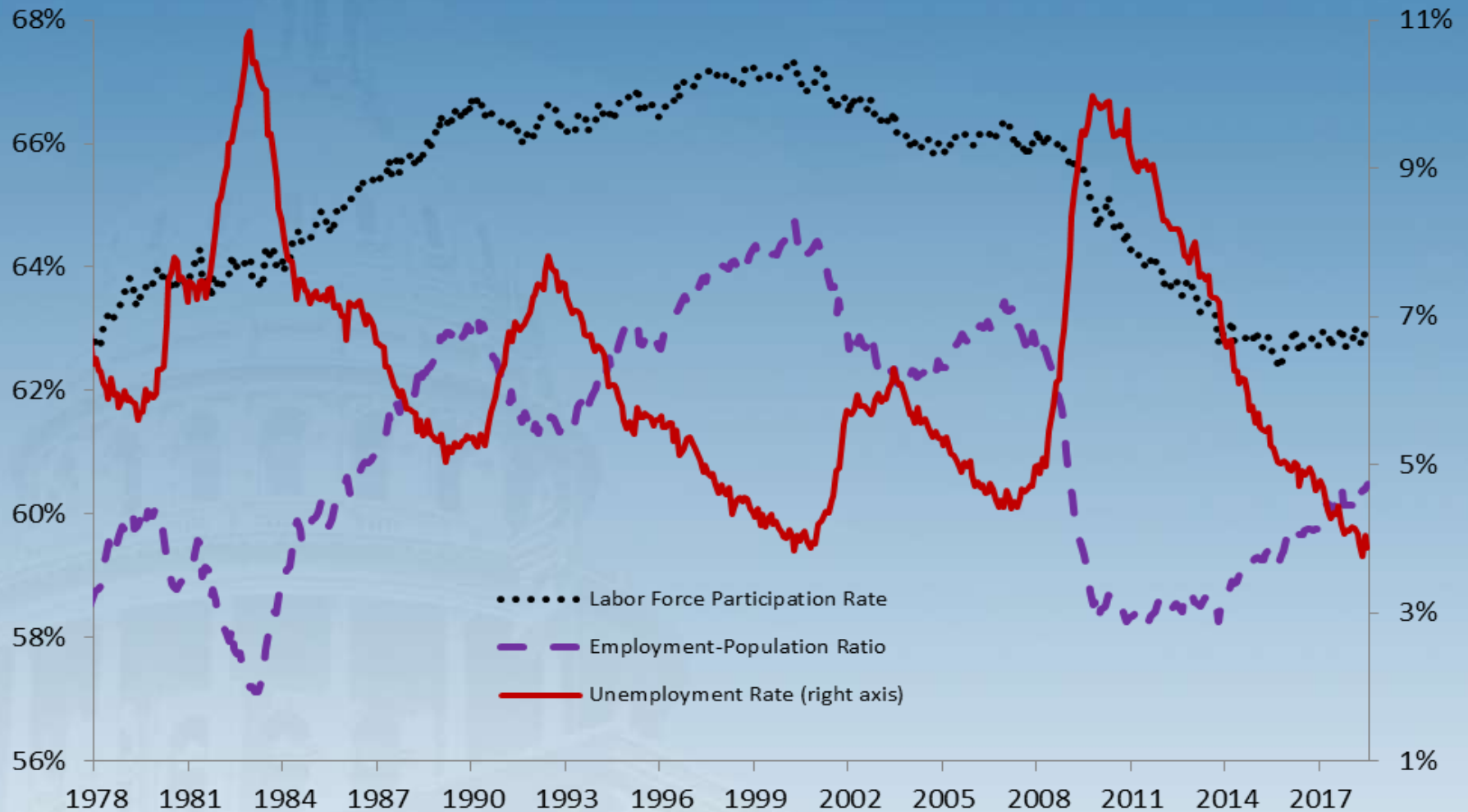
SIZE OF GOVERNMENT (23), LEGAL (117),
SOUND MONEY (96), FREE TRADE (64),
REGULATION (79)

Source: Fraser Institute, [Economic Freedom of the World 2017](#), 157 countries

Fiscal & Monetary Policy?



U.S. Labor Market Sends Mixed Signals

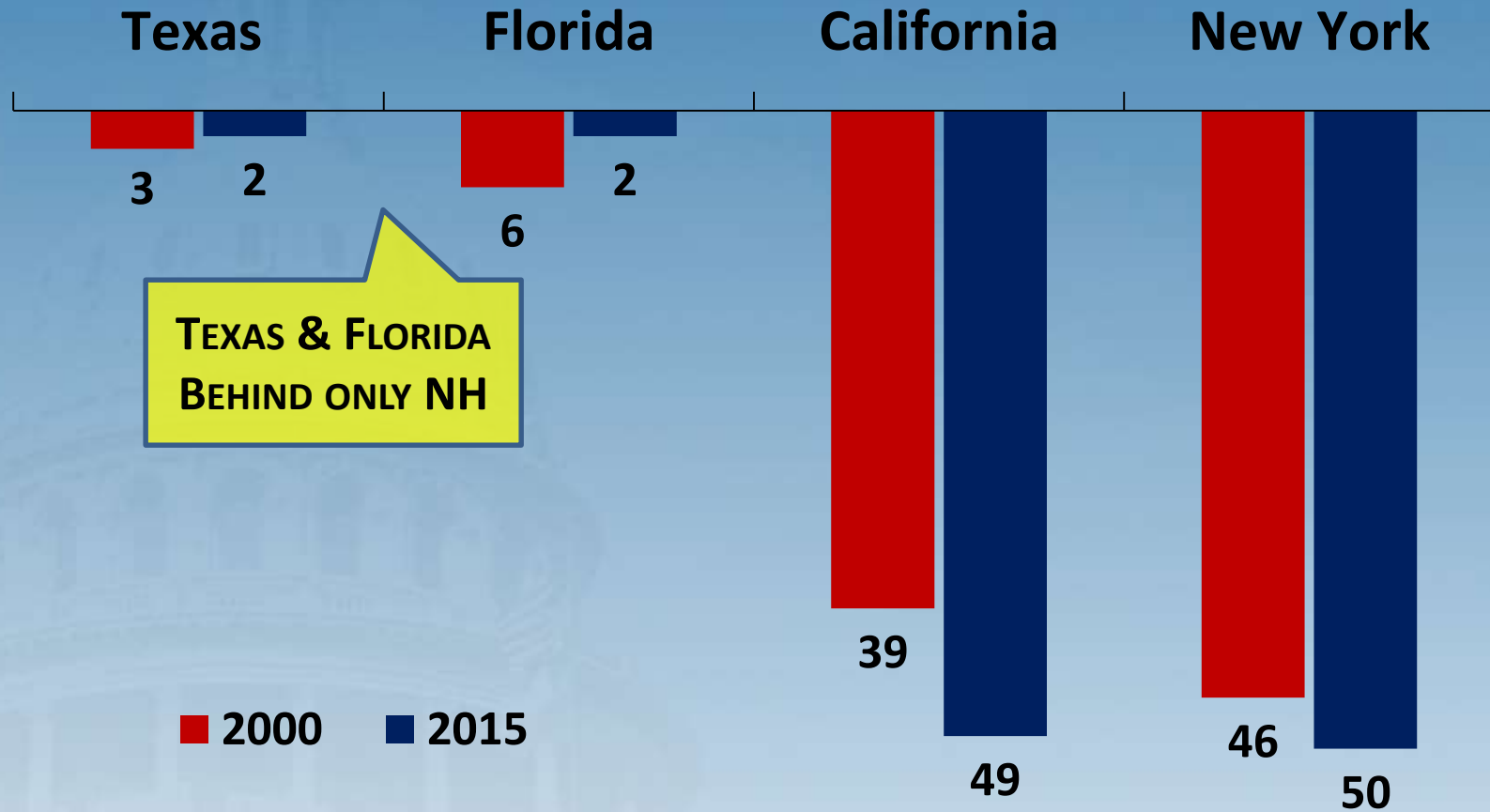


Source: [BLS](#)

Results of Federal Institutions

- Slowest recovery since WWII, but improving
- Mulligan: Implicit marginal tax rates
- Standards of living from 2007 to 2017
 - Population: +8% to 325 million
 - Food stamp recipients: +62% to 42.7 million
 - Poverty level: +14% to 43 million
 - SSDI recipients: +24% to 8.8 million

Institutions Matter: Try New Model



Source: Fraser Institute, [*Economic Freedom of North America 2017*](#)

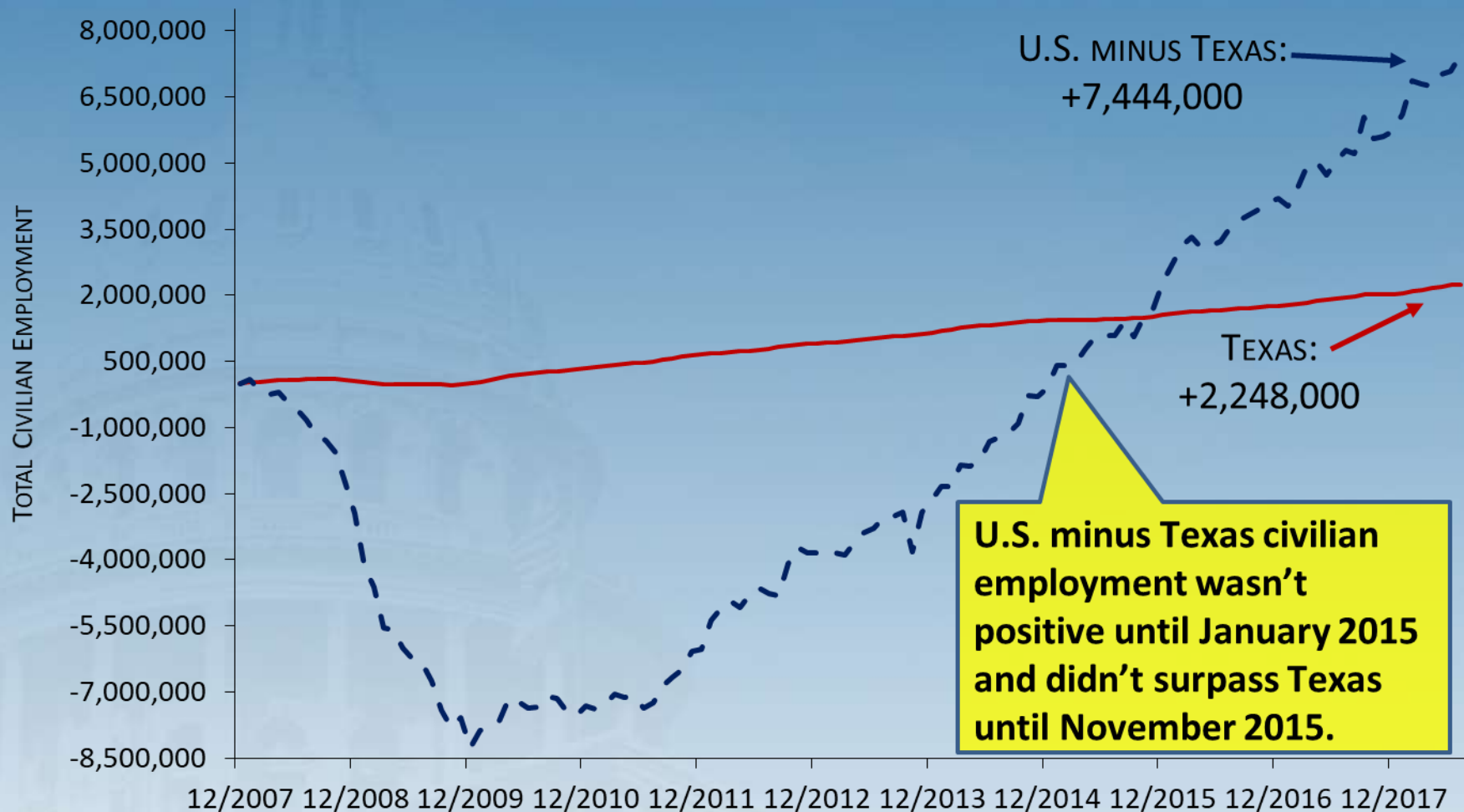
Institutions Matter: Texas Model Works

Measure	U.S.	Texas	Florida	California	New York
Economic Freedom of North America	11 th (World)	2 nd	2 nd	49 th	50 th
State Business Tax Climate Index	--	13 th	4 th	48 th	49 th
State-Local Spending Burden	--	37 th	48 th	6 th	3 rd
State-Local Tax Burden	--	46 th	34 th	6 th	1 st
U-6 Underutilization Rate (2003-17)	11.6%	10.5%	12.0%	14.3%	11.1%
Labor Force Participation Rate (2000-17)	65.0%	66.1%	61.7%	64.6%	62.1%
Emp-Pop 25-54 year old Ratio (2000-17)	77.6%	77.3%	77.5%	75.2%	76.1%
Civilian Emp (12/07-12/17), exclude TX	+5,723,000	+2,024,000	+979,000	+1,564,000	+132,000
Top 10% Income Shares (2000-15)	47.8%	47.0%	55.0%	50.2%	57.1%
Supplemental Poverty Measure (2014-16)	14.7%	14.7%	18.7%	20.4%	16.0%

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

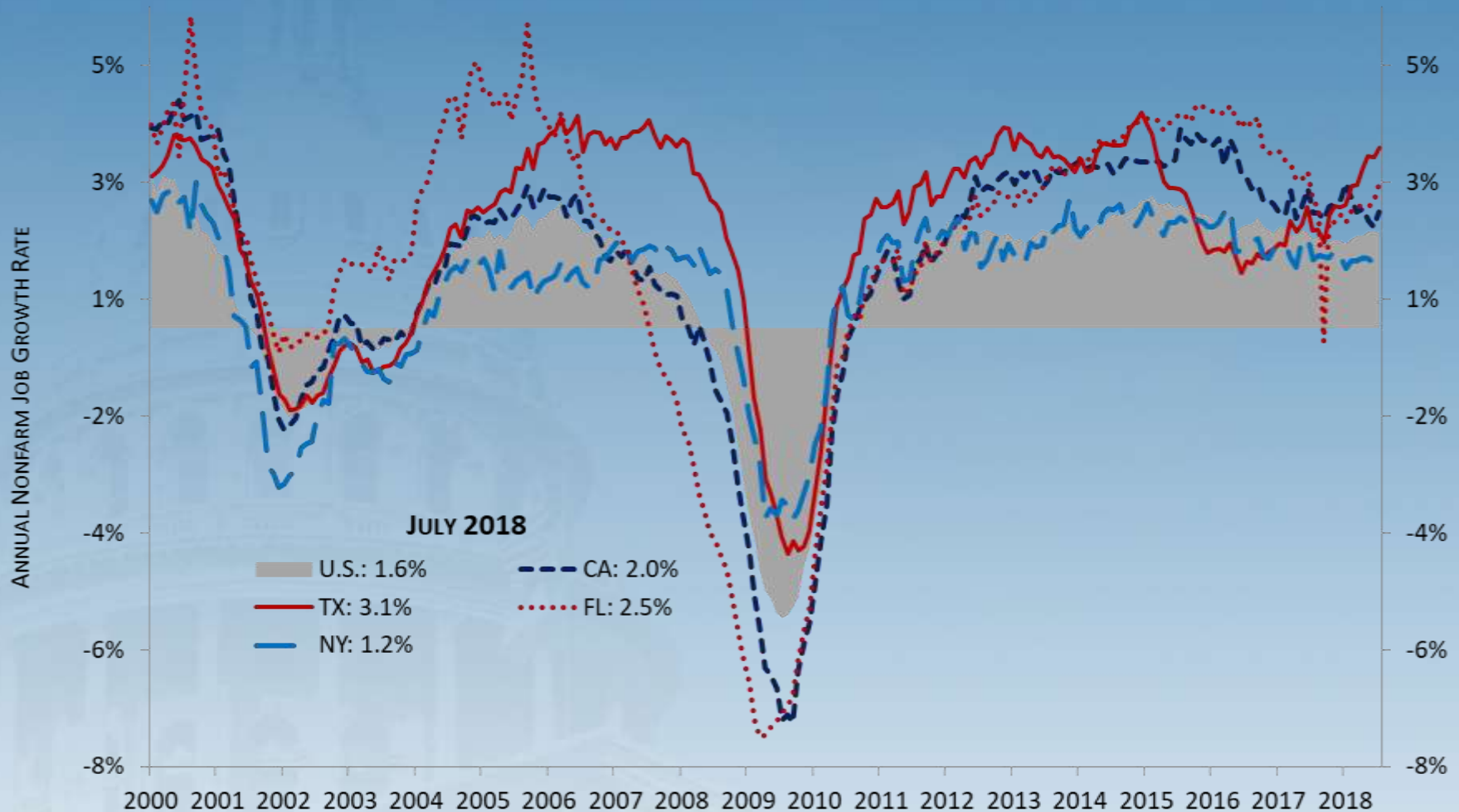
Texas, America's Jobs Engine

Texas has created 23% of total U.S. employment increase since pre-Great Recession



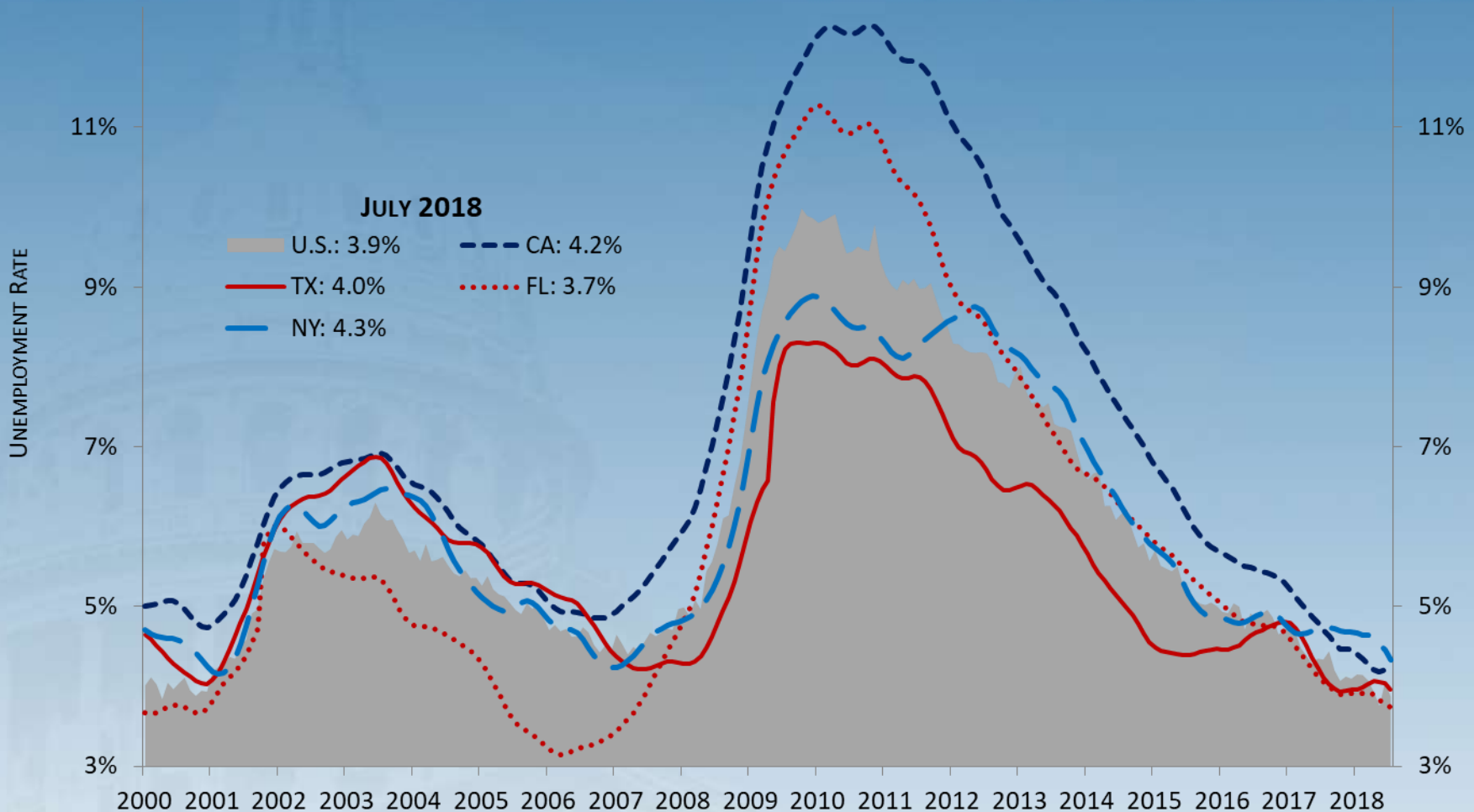
DATA ARE CUMULATIVE MONTHLY TOTAL CIVILIAN EMPLOYMENT FROM THE U.S. BUREAU OF LABOR STATISTICS FROM 12/2007 TO 7/2018.

Texas Created 377,100 Net Nonfarm Jobs In the Last 12 Months



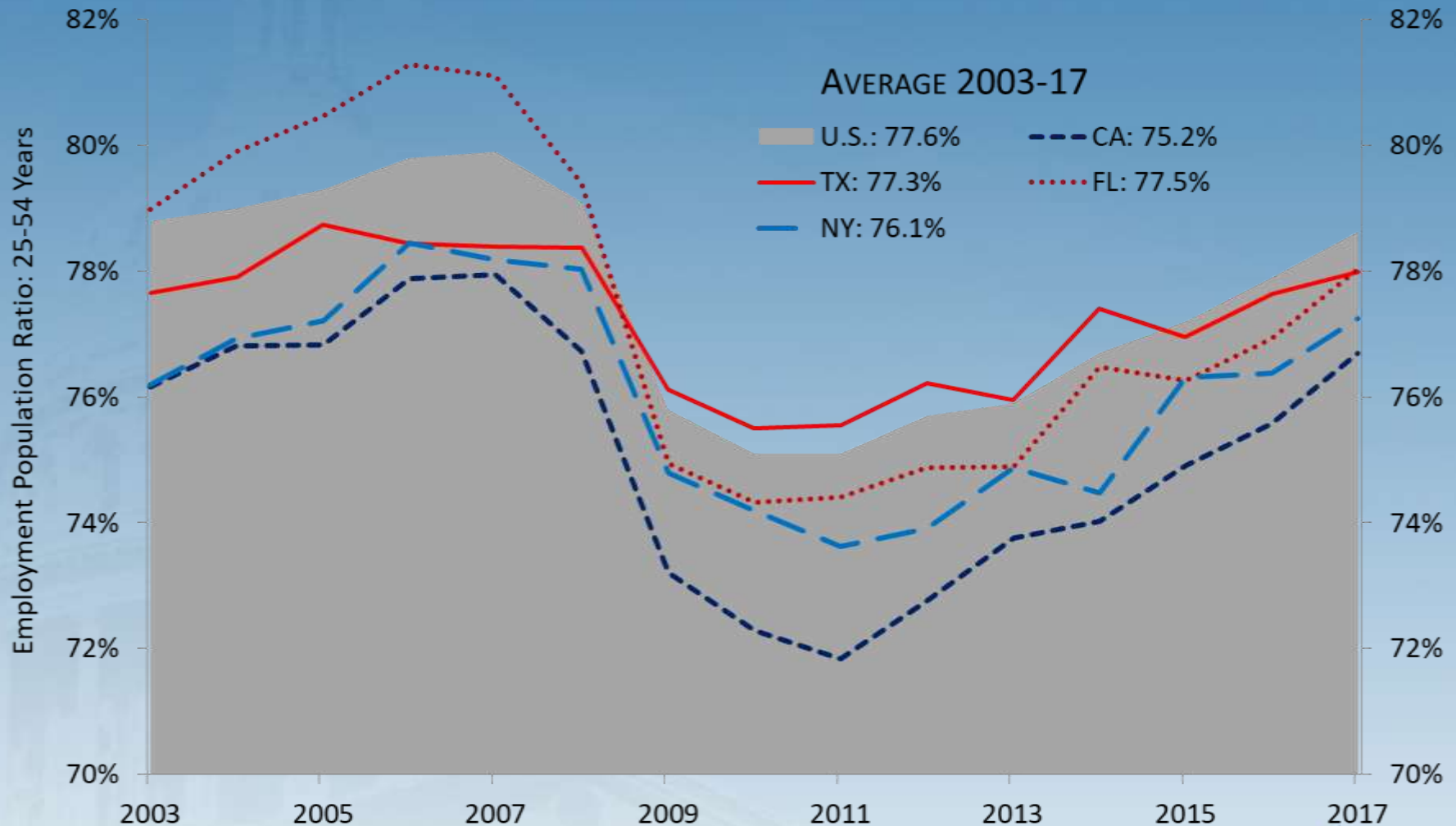
SEASONALLY ADJUSTED NONFARM EMPLOYMENT DATA ARE FROM
THE BUREAU OF LABOR STATISTICS.

Texas' Unemployment Rate At or Below 5% for 48 Straight Months



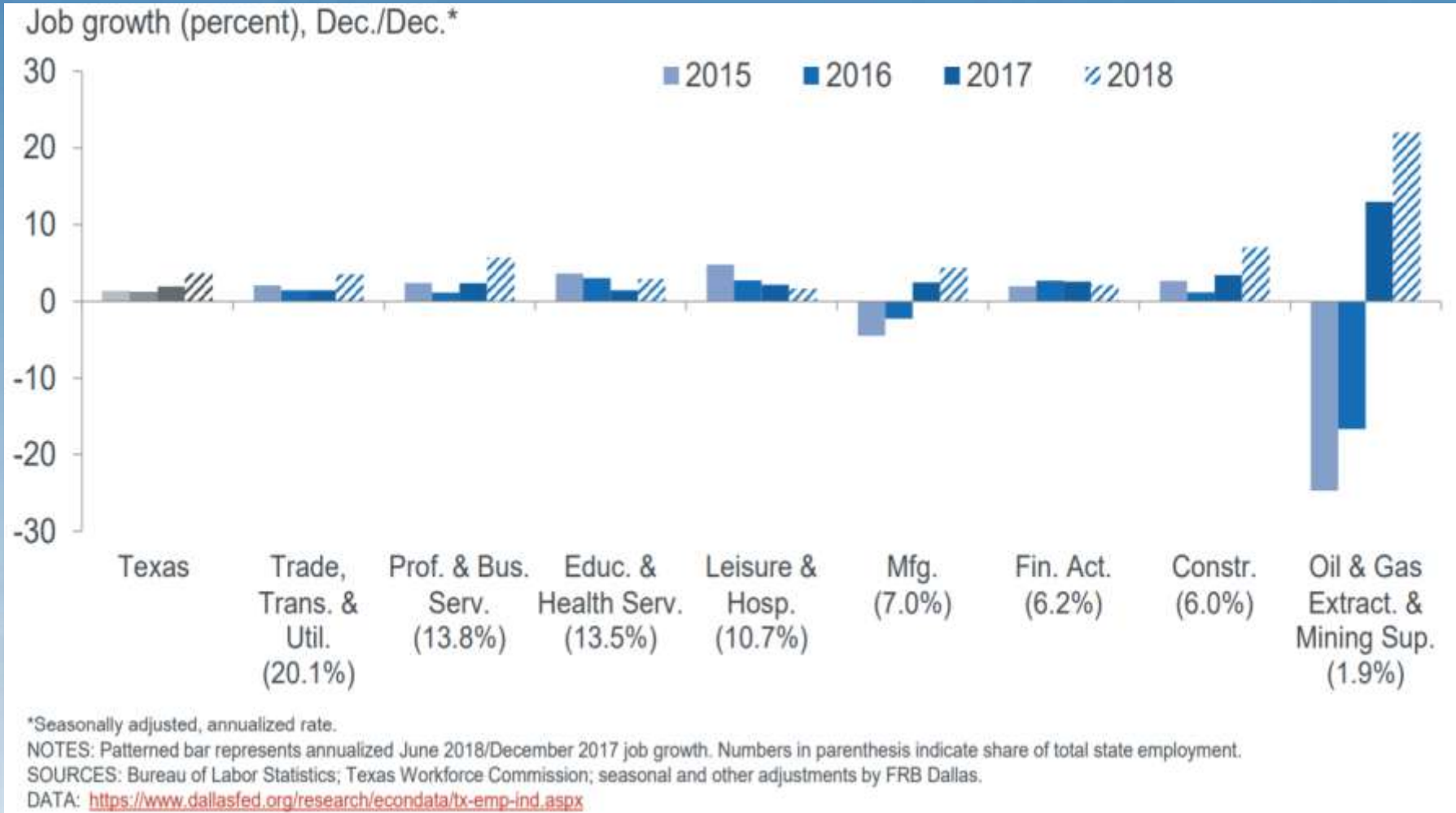
SEASONALLY ADJUSTED NONFARM EMPLOYMENT DATA ARE FROM
THE BUREAU OF LABOR STATISTICS.

Texas' Prime-Age Employed Population Higher than Others Since 2009



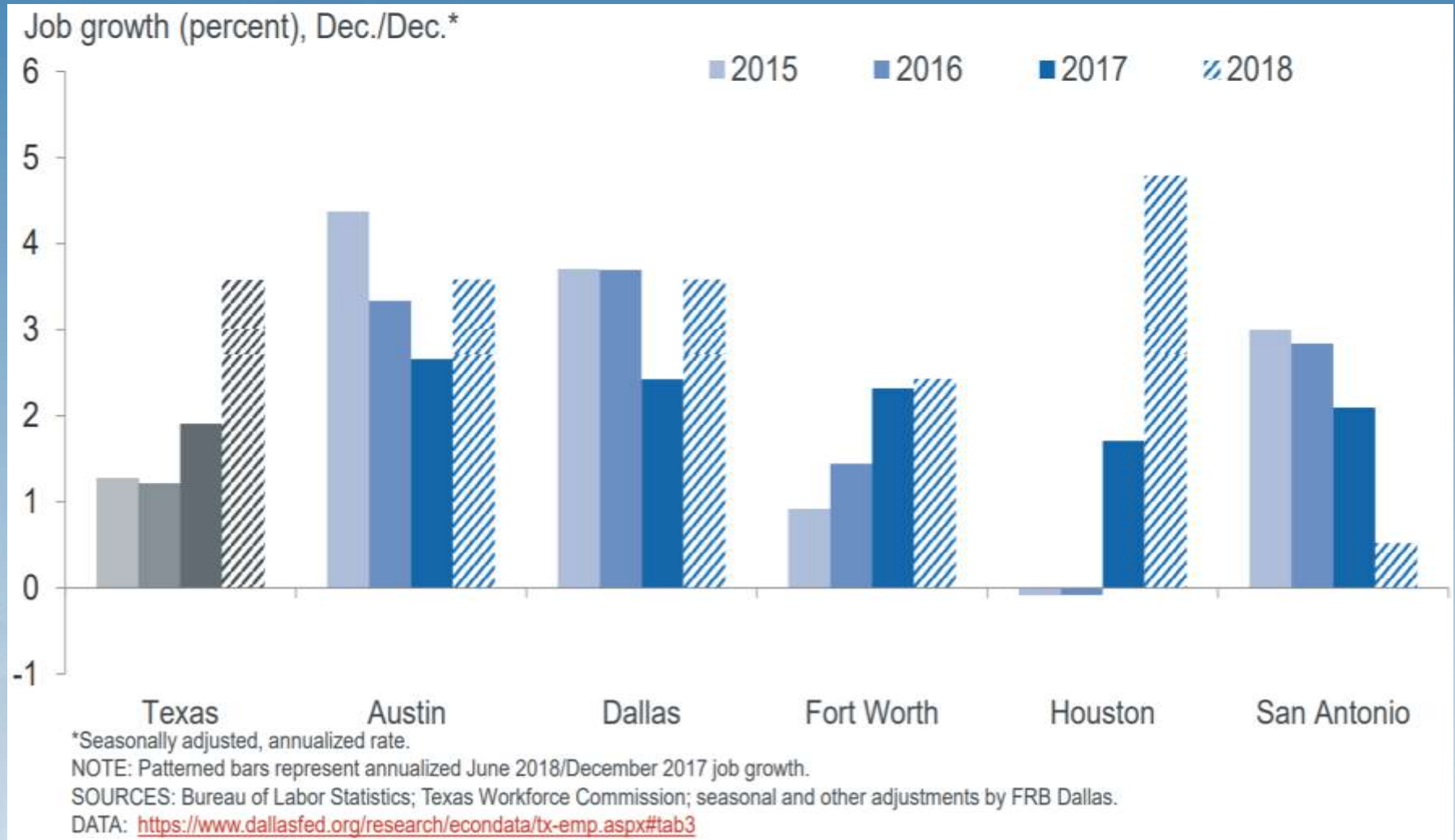
SEASONALLY ADJUSTED NONFARM EMPLOYMENT DATA ARE FROM
THE BUREAU OF LABOR STATISTICS.

Diversified Texas Economy Continues Creating Jobs in Most Sectors



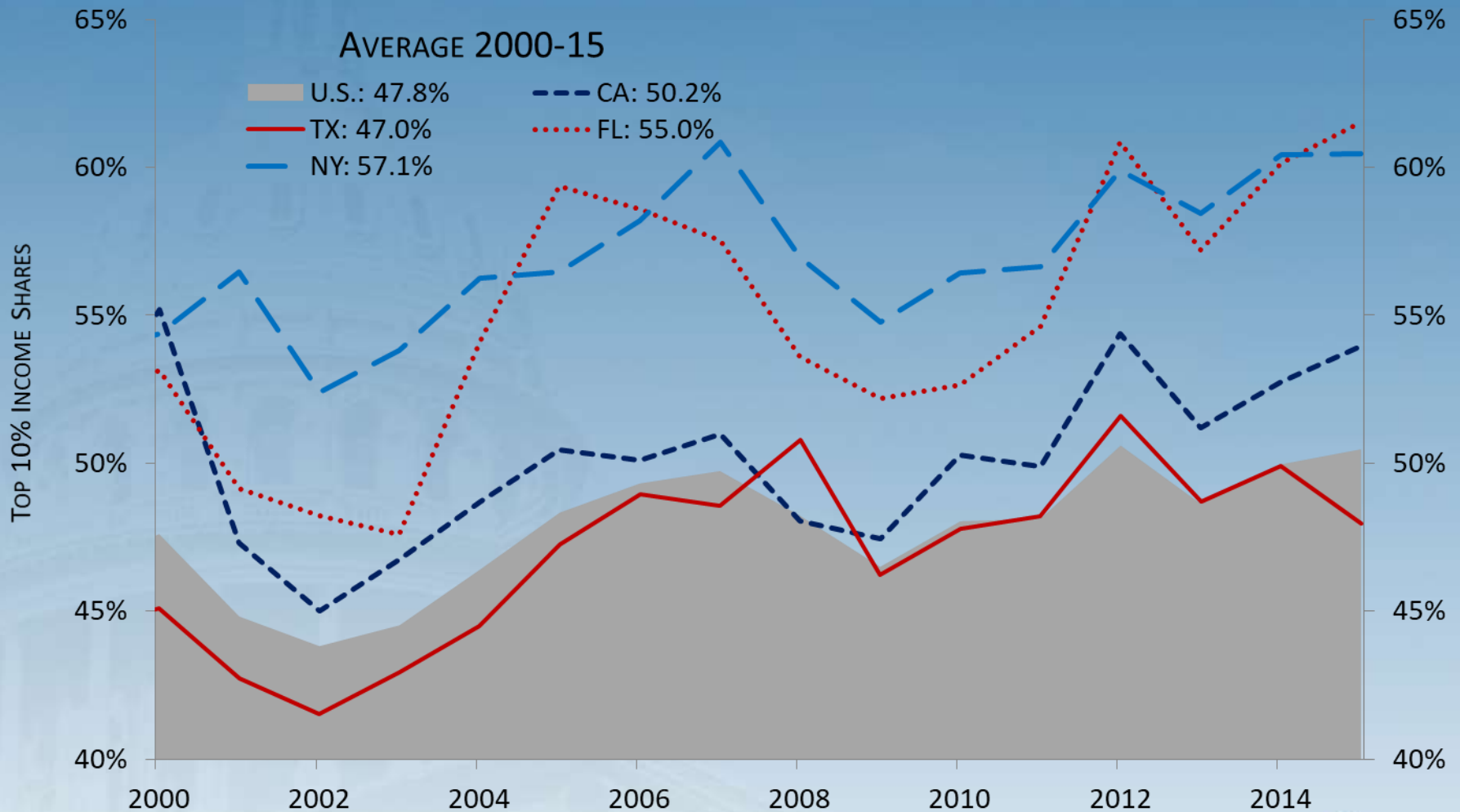
Source: Dallas Fed, [Your Texas Economy](#).

Texas' Metros Continue Positive Job Growth



Source: Dallas Fed, [Your Texas Economy](#).

Income Inequality Lower in Texas than Other Large States and U.S. Average



Source: [Mark Frank, Sam Houston State University](#)

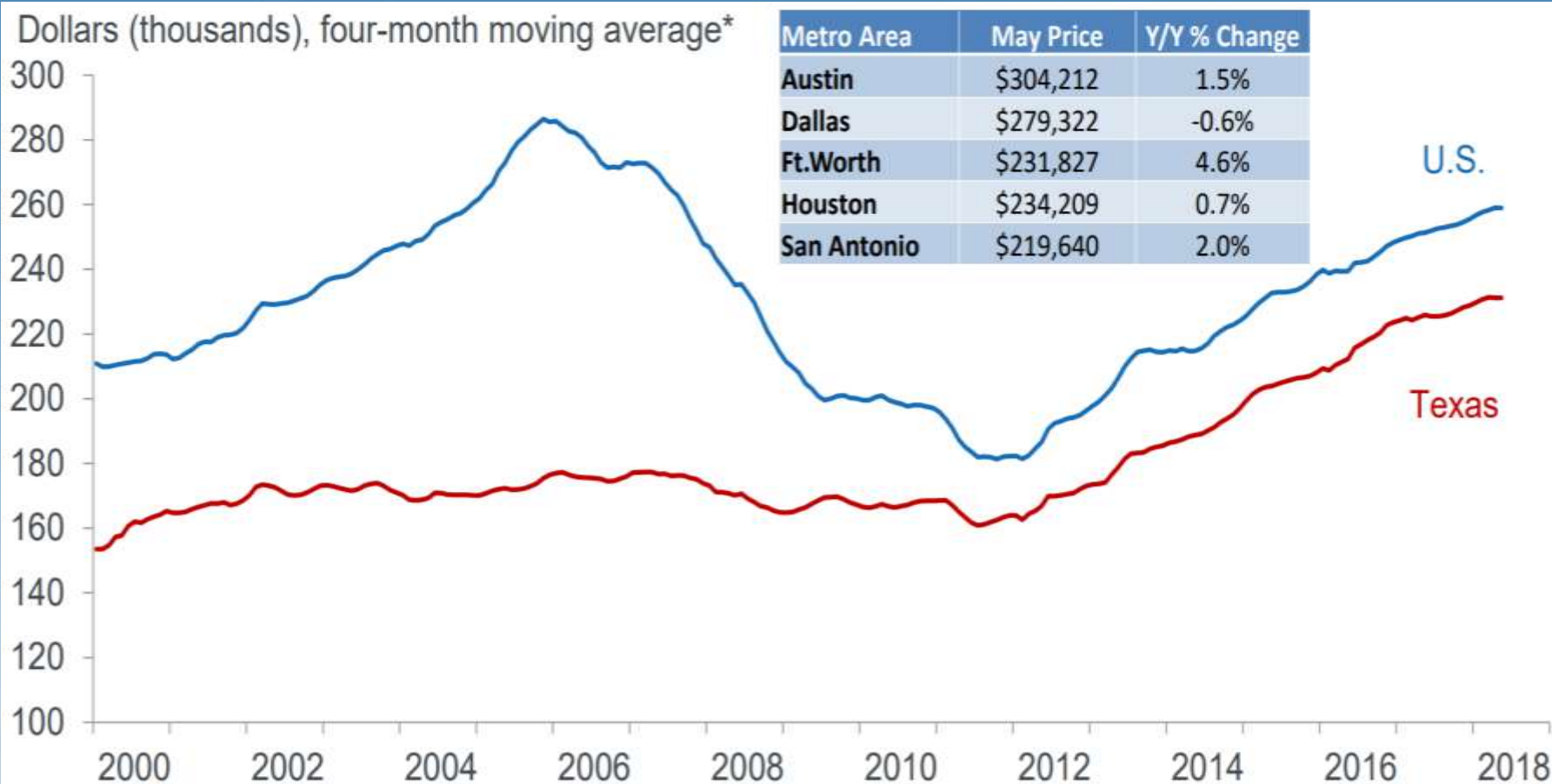
American Dream is not dead – it has simply moved to the **Lone Star State.**



BUT...Texas has Challenges

- TPPF's [Texas Prosperity Promise](#)
 - Eliminate Property Taxes: Start with school M&O
 - Education: Student-centered funding, Freedom
 - Spending: State & local spending limitations
 - Accountability: End tax-funded lobbying & government collection of union dues
 - Self Governance: Prioritizing civics education
- Fiscal: Spending, Taxes, Corporate Welfare
- Education: Funding, Choice, TRS, Teacher Pay
- Regulation: Occupational Licensing, Local Zoning
- Energy: Oil & Gas, Resilient but Not Immune
- Federal: Debt, Regulation, Trade

Bubbly? Record High Texas Home Prices



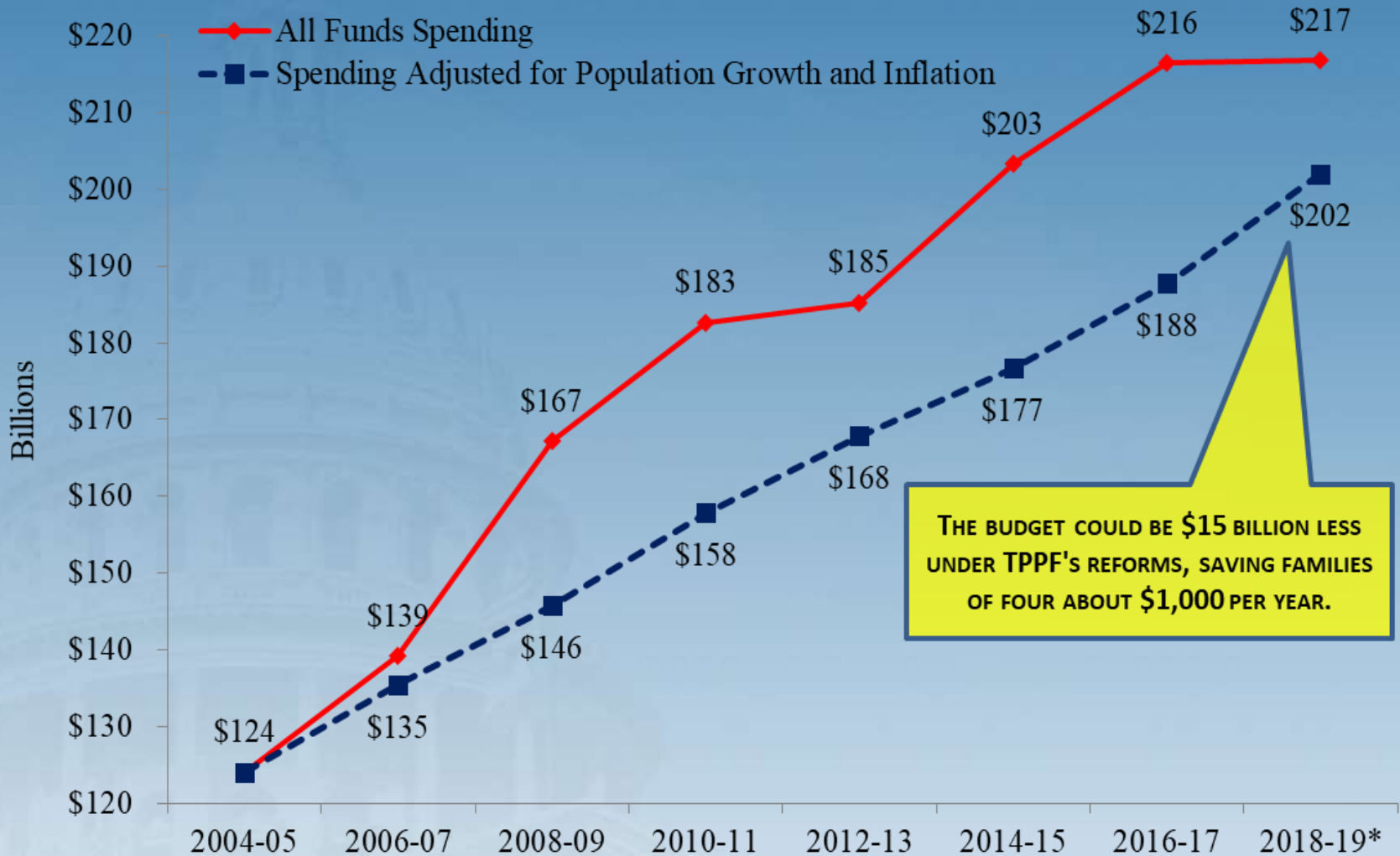
*Seasonally adjusted.

NOTES: Data in real dollars. Data through May 2018.

SOURCES: Multiple Listing Service; seasonal and other adjustments by FRB Dallas.

Source: Dallas Fed, [Your Texas Economy](#).

State Spending Problem



Source: Legislative Budget Board's *Fiscal Size-Up* and authors' calculations. *indicates estimate.

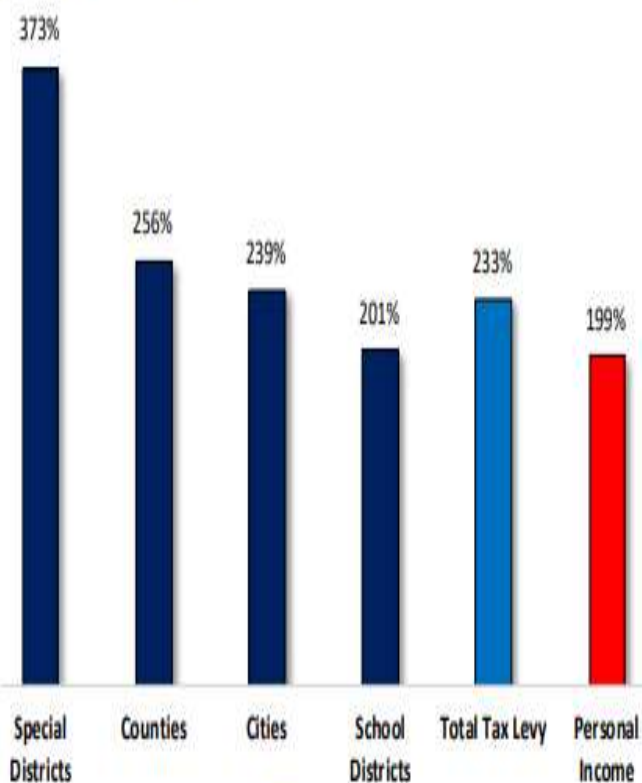
Local Spending Problem

Table 1. Property tax levy growth by local taxing unit, 1996-2016 (thousands of \$)

Tax Year	Special Districts	County	City	School Districts	Total
1996	\$1,698,557	\$2,537,184	\$2,701,214	\$9,910,195	\$16,847,151
1997	\$1,759,623	\$2,658,308	\$2,847,081	\$10,394,500	\$17,659,513
1998	\$1,889,138	\$2,828,287	\$3,005,996	\$11,334,614	\$19,058,036
1999	\$2,041,041	\$2,979,279	\$3,247,964	\$12,009,923	\$20,278,208
2000	\$2,389,110	\$3,200,920	\$3,530,864	\$13,392,336	\$22,513,230
2001	\$2,703,512	\$3,566,857	\$3,884,829	\$15,155,218	\$25,310,416
2002	\$2,864,455	\$3,849,728	\$4,186,795	\$16,418,789	\$27,319,768
2003	\$3,092,285	\$4,121,759	\$4,415,213	\$17,264,154	\$28,893,411
2004	\$3,369,069	\$4,462,844	\$4,607,758	\$18,533,965	\$30,973,635
2005	\$3,609,630	\$4,772,652	\$4,901,792	\$20,194,916	\$33,478,989
2006	\$3,972,186	\$5,339,614	\$5,322,986	\$20,918,122	\$35,552,907
2007	\$4,513,060	\$5,836,990	\$5,890,307	\$18,874,240	\$35,114,597
2008	\$4,952,735	\$6,342,705	\$6,451,012	\$21,233,517	\$38,979,970
2009	\$5,133,821	\$6,526,724	\$6,593,755	\$21,780,056	\$40,034,356
2010	\$5,392,512	\$6,567,070	\$6,755,401	\$21,558,289	\$40,273,272
2011	\$4,926,074	\$6,742,913	\$6,810,049	\$22,001,561	\$40,480,597
2012	\$5,543,422	\$7,064,659	\$7,054,990	\$23,072,782	\$42,735,853
2013	\$5,529,434	\$7,537,750	\$7,324,431	\$24,854,671	\$45,246,286
2014	\$6,370,470	\$8,114,998	\$7,828,572	\$26,792,677	\$49,106,717
2015	\$6,954,137	\$8,696,387	\$8,380,436	\$28,176,466	\$52,207,427
2016	\$8,031,408	\$9,027,418	\$9,165,214	\$29,856,268	\$56,080,308
Average Annual Change	8.2%	6.6%	6.3%	5.8%	6.3%

Sources: Hegar (9) and latest available data for 2016 from [Texas Comptroller](#) (2018)

Figure 2. Texas' local property taxes and personal income growth, 1996-2016



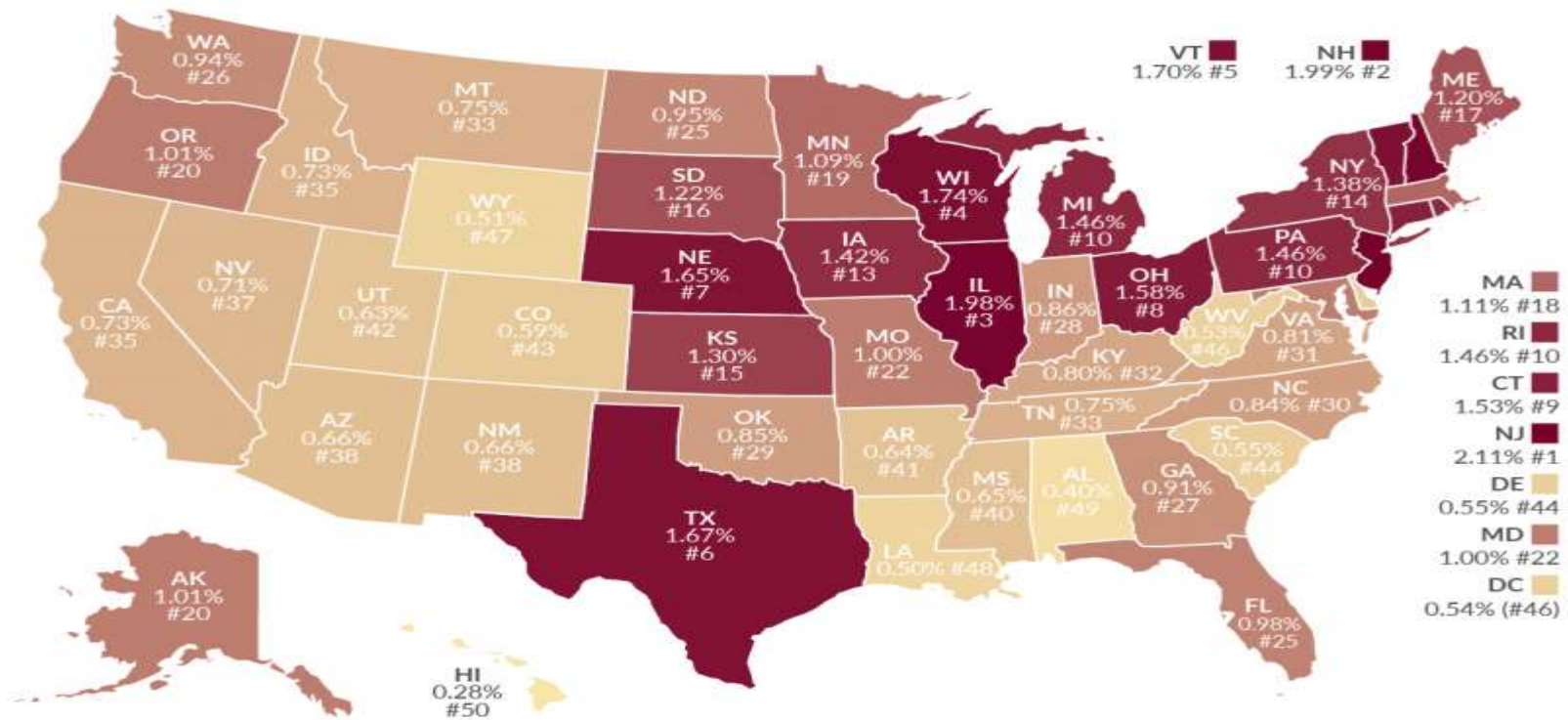
Sources: [Hegar](#) and the [FRED](#)

Source: TPPF, [Abolishing the "Robin Hood" School Property Tax](#)

Texas Property Taxes are Too High

How High Are Property Taxes in Your State?

Mean Effective Property Tax Rates on Owner-Occupied Housing, Calendar Year 2014



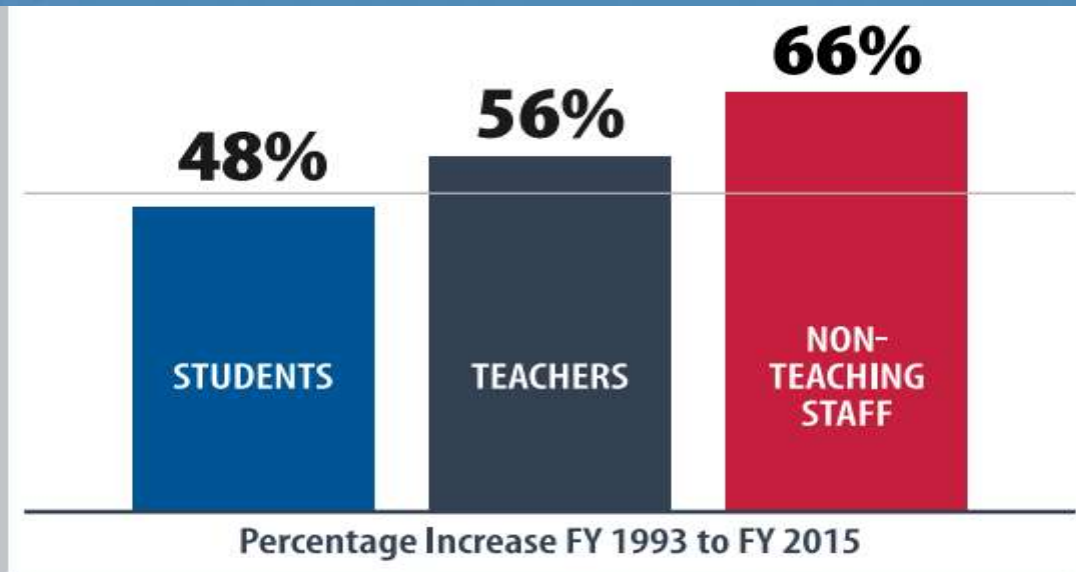
Note: The figures in this map are mean effective property tax rates on owner-occupied housing (total real taxes paid/total home value). As a result, the data exclude property taxes paid by businesses, renters, and others. D.C.'s rank does not affect states' ranks, but the figure in parentheses indicates where it would rank if included.

Source: 2014 American Community Survey, available from the Census Bureau; Tax Foundation calculations.

Source: [WU/Leak](#)

Source: Tax Foundation, [State-Local Tax Burden Rankings](#)

Texas Education Should Spend Wisely



If public schools had limited the increase in non-teaching staff *to the same rate as the increase in students*, public schools COULD have done one of the following...



Source: TPPF, [*Texans Need More Education for Their Money*](#)

Property Tax Relief

- 1) Limit Spending: State 4% biennial & Local 2.5% annual
- 2) Eliminate School M&O Property Taxes (~1/2 Burden)

Table 3. 11-Year school property tax replacement scenario (thousands of \$)

	2020-21	2022-23	2024-25	2026-27	2028-29	2030-31
GRR Revenue (10.08% increase)	118,146,662	130,055,845	143,165,475	157,596,555	173,482,287	190,969,302
New GRR Available for State Spending (4% increase)	4,293,120	4,464,844	4,643,438	4,829,176	5,022,343	5,223,236
New GRR Property Tax Replacement Payment	5,872,988	7,287,203	8,348,291	9,476,542	10,724,704	12,109,870
Property Tax Replacement %	11.5%	16.1%	21.9%	31.8%	52.6%	100%
School M&O Property Taxes	45,402,951	38,115,747	29,767,455	20,290,913	9,566,208	0

Source: Authors' calculations

Swap Sales Tax Base (Millions of \$)	GDP (2017:Q3)	State Tax Rate	Local Tax Rate	Total Tax Rate
A. Total Private Industries	\$1,524,249	3.52%	0.54%	4.06%
B. A-Real Estate-Construction	\$1,264,658	4.24%	0.65%	4.89%
C. B-Health Care-Manufacturing	\$936,633	5.73%	0.88%	6.61%
D. C-Management-Mining-Wholesale	\$637,098	8.42%	1.29%	9.71%
E. GDP Necessary for No Change in Rate	\$749,988	6.25%	2.00%	8.25%

Source: TPPF, [*Abolishing the "Robin Hood" School Property Tax*](#)

Prosperity in 2019 Texas Session

- Pass Another Conservative Budget
- Strengthen State Spending Limit
- Eliminate Property Taxes—School M&O Tax
- Eliminate Business Margins Tax
- Create a Tax Relief Fund
- Increase Budget Transparency
- Review & Eliminate Occupational Licenses

Government spending is ultimately paid for by taxation, so we must control spending for Texans to prosper.

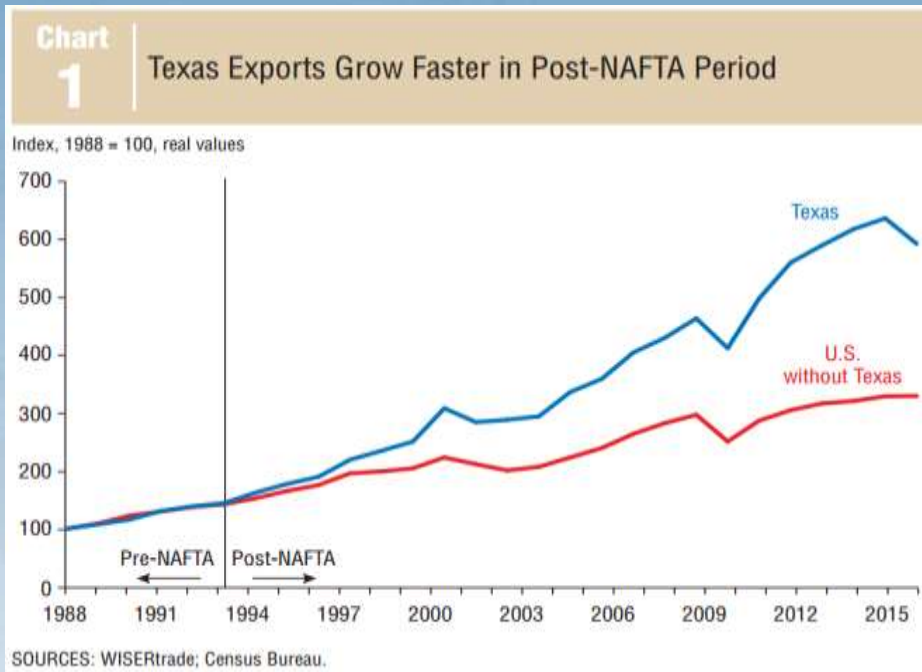
Can D.C. Make America Like Texas?

- **Regulatory reform:** Key to increased confidence
 - Energy: Clean Power Plan
 - Healthcare: Affordable Care Act
 - Banking: Dodd-Frank

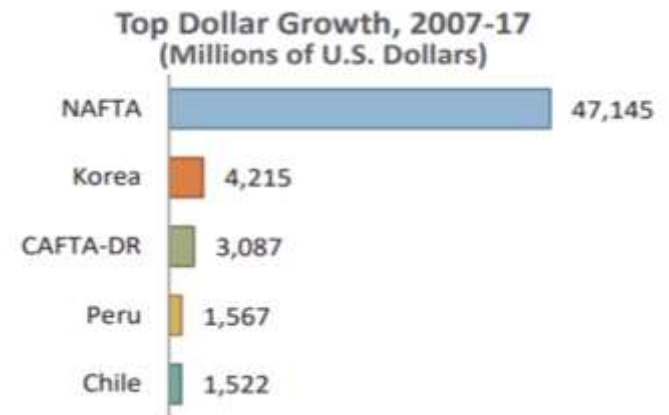
- **Fiscal reform: Tax Cuts and Jobs Act**
 - Deal with massive debt?
 - Revenue neutrality versus Budget neutrality?
 - Welfare reform?

People Prosper from Trade: NAFTA & TX

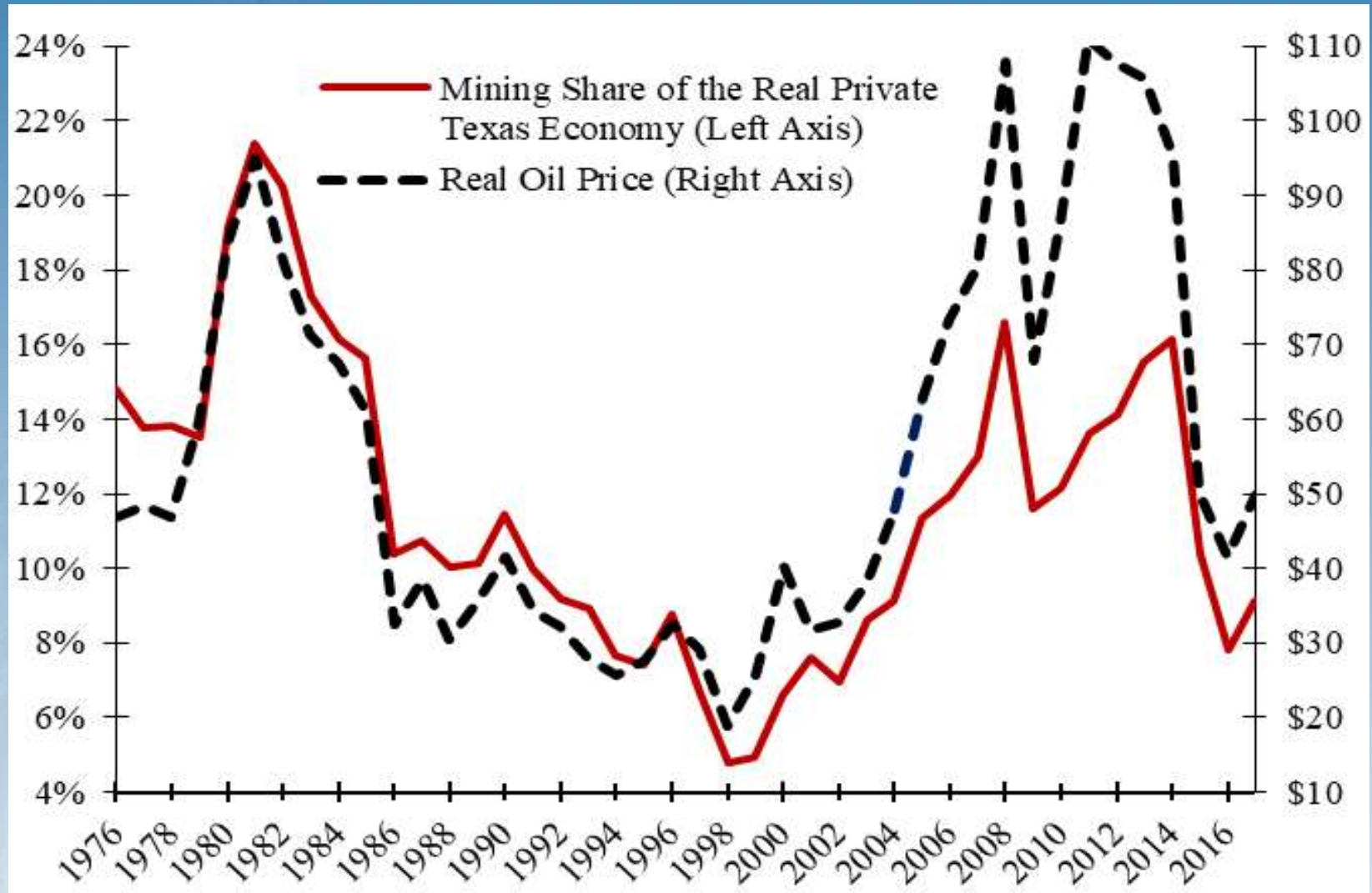
- Trade is between people not countries
- NAFTA isn't perfect: 1,700+ pages, favoritism
- But has contributed to net gains in income & jobs
- TX: \$228 B trade with Mexico & Canada; +\$12 B



Since 2007, exports from Texas to FTA markets have grown by **65%**



Diversification of Economy Since NAFTA



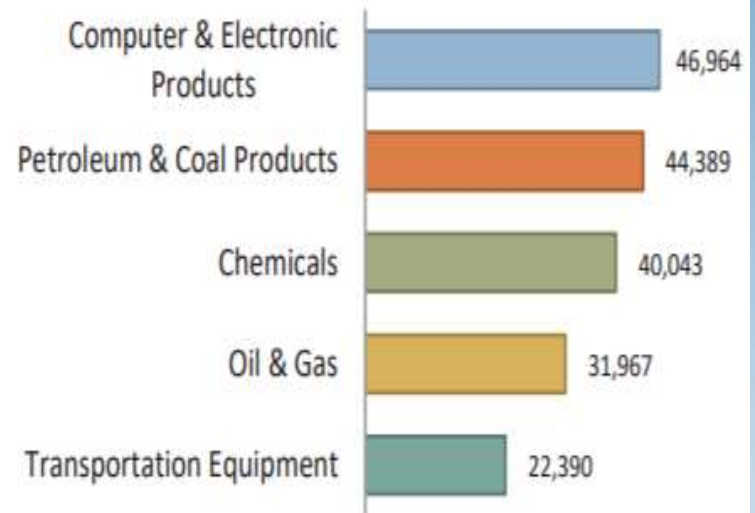
Source: [People Prosper from Trade: NAFTA and Texas.](#)

Texas Top Exporting State for 16 Years



Texas goods exports in 2017

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



What's Up With Tariffs?

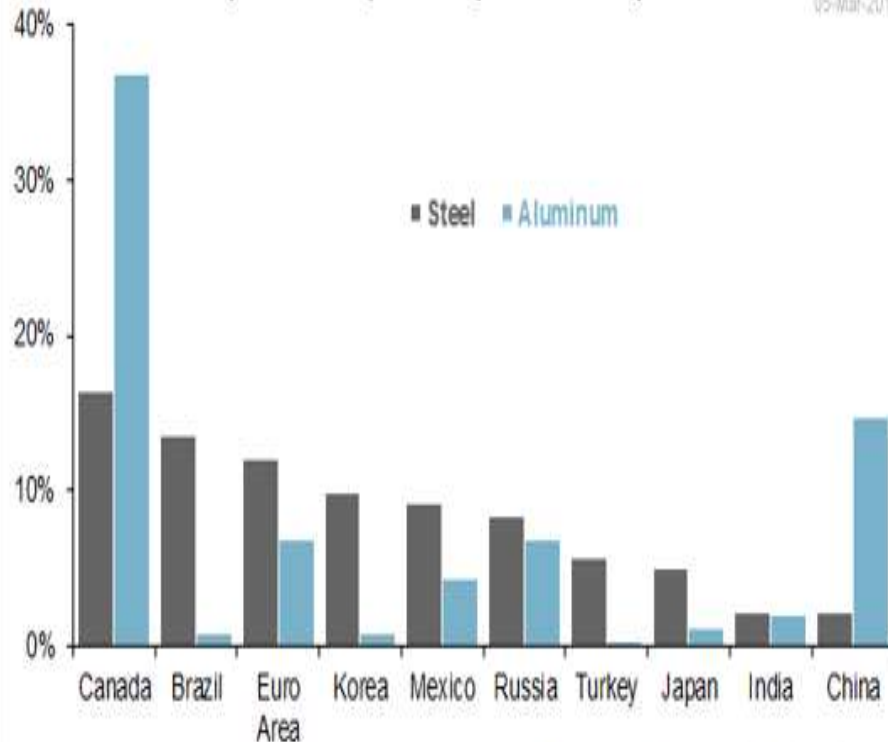
Steel & aluminum imports come from a number of different countries

% of total U.S. imports of each product, by source country, 2017

Posted on

WSJ: The Daily Shot

05-Mar-2018



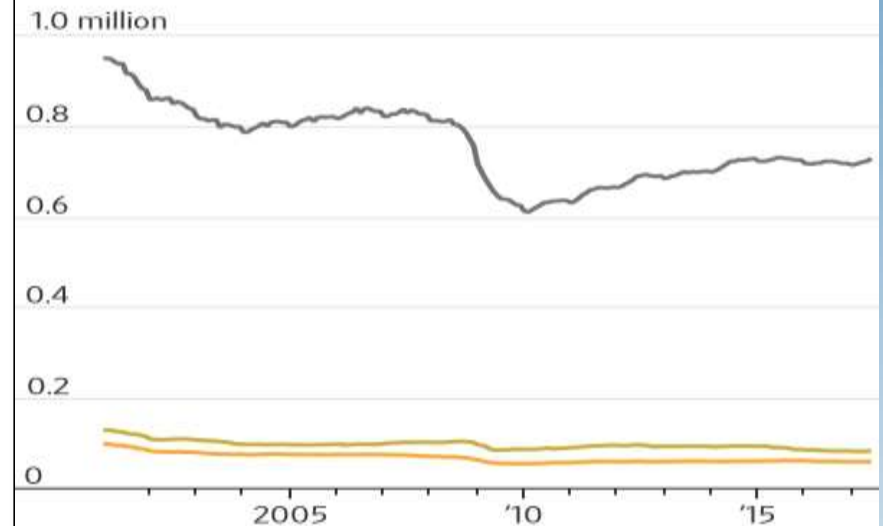
Source: Census Bureau, USA Trade, J.P. Morgan Asset Management. Calculated on a quantity basis for steel and value basis for aluminum. Data are as of March 2, 2018.

Buyers and Suppliers

Employment in steel-consuming industries exceeds that of the steel- and aluminum-producing industry.

Number of employees

- Steel-consuming manufacturers*
- Steel producers
- Aluminum producers



*Steel-consuming manufacturers are 15 industry groups objecting to the tariff

Source: Labor Department

Costs of Enacted and Threatened Tariffs?

Table 1. Impact of Trump Administration Enacted Tariffs

Tariff Revenue (Billions of 2018 Dollars)	\$21.95
Long-run GDP	-0.06%
GDP (Billions of 2018 Dollars)	-\$15.92
Wages	-0.04%
FTE Jobs	-49,338

Table 2. Impact of Trump Administration Threatened Tariffs

Tariff Revenue (Billions of 2018 Dollars)	\$153.25
Long-run GDP	-0.45%
GDP (Billions of 2018 Dollars)	-\$111.41
Wages	-0.29%
FTE Jobs	-345,449

Source: [Tax Foundation](#)

Costs of Retaliatory & Total Impact?

Table 3. Impact of Retaliatory Tariffs

Tariff Revenue (Billions of 2018 Dollars)	\$0
Long-run GDP	-0.09%
GDP (Billions of 2018 Dollars)	-\$23.51
Wages	-0.06%
FTE Jobs	-72,864

Table 4. Total Impact of Enacted and Announced Tariffs

Tariff Revenue (Billions of 2018 Dollars)	\$175.2
Long-run GDP	-0.60%
GDP (Billions of 2018 Dollars)	-\$150.6
Wages	-0.39%
FTE Jobs	-466,899

Source: [Tax Foundation](#).

Takeaways: Let People Prosper

- Institutions Matter
- Reduce the Size and Scope of Government
- Key: Limit government spending & free trade

"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



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