

Testimony of M. Ray Perryman Before the
Texas House Committee on International Trade and
Intergovernmental Affairs Regarding Trade and a
Potential Border Tax

April 24, 2017



Honorable Chair and Distinguished Members:

My name is M. Ray Perryman. I am President of The Perryman Group, an economic research and analysis firm based in Waco. I hold a BS degree in Mathematics from Baylor University and a PhD in Economics from Rice University. I have about 40 years of professional experience and have built and continue to maintain an extensive set of models for the Texas economy. I am extremely involved in a wide variety of public policy issues, and have worked on numerous economic development initiatives throughout the world. I have been involved in the negotiation and analysis of numerous international trade initiatives, including the North American Free Trade Agreement (NAFTA), and have advised four Presidents and the US Congress on trade issues. I have frequently testified before the Texas Legislature on a wide range of issues related to the Texas economy, including several major studies related to trade and immigration and workforce issues. I regret that I cannot be with you in person today due to a prior commitment in North Carolina. I am grateful for the opportunity to address this extremely important issue to the future of our great state.

A Perspective on Trade Policy

The rationale behind trade policy under consideration is apparently to encourage more products to be made in the US in the long run by imposing taxes on imports (tariffs) and penalizing companies who operate overseas or even source inputs elsewhere. For reasons explained below, this approach does not work.

One oft-cited claim is that trade policy has caused the US to lose manufacturing jobs as some production moved to lower-wage locations overseas. While it is certainly true that some things that are made abroad were once made domestically, the primary reason for US manufacturing job losses is the inexorable advance of technology. It is easy to forget that our manufacturing

output continues to expand year after year; it just requires fewer workers because of the embodied advances in production processes.

Unless we want to tolerate wages in line with the poorest nations, we are not going to make the things that require the least skilled labor (although we may well regain the relevant sectors using new, more efficient production methods). The impact of NAFTA, for example, has not been by and large to take jobs out of the United States; it has been to keep jobs that were leaving in any case in this hemisphere rather than more distant locales.

The tragic mistake in US economic policy is not trading with other nations; it is rather, not providing the resources and incentives to re-train displaced workers to meet the rising demand for skilled positions. At the same time these workers are suffering, the country is at virtually full employment and many technology-oriented firms are begging for qualified people to hire.

About 11.5 million jobs in the US were supported by exports in 2015. Specifically, exports of goods and services to Mexico supported nearly 1.2 million jobs and exports to China supported another 900,000 jobs. Texas is the top exporting state in the US and received over \$288.0 billion in revenues from exporting in 2014. Mexico is Texas' largest trading partner, receiving \$102.5 billion in Texas exports. The state's other largest export destinations include Canada (\$31.2 billion), Brazil (\$11.8 billion), China (\$10.9 billion), and South Korea (\$8.9 billion). There were over 1.1 million export related jobs in Texas in 2013, accounting for approximately 16% of all export related jobs for the nation that year. Texas also imported nearly \$302.1 billion in goods and services in 2014, including over \$90.1 billion from Mexico.

Large import tariffs make imported goods more expensive for consumers, essentially passing much of the cost forward. In addition, small businesses that are buying imports as inputs may not be able to absorb the higher prices, and US goods will become less competitive globally. Furthermore, other nations would likely retaliate by raising tariffs on imported goods from the United States, causing our exports to suffer as well. The United States tried this approach in the 1930s, and managed to worsen the Great Depression, help create a later global depression, and, thus, contribute to one of the underlying causes of World War II.

In simple terms, the idea of free trade is that economies, minus the disruptive influence of tariffs, are able to specialize in what they can more cheaply and efficiently produce. When countries specialize in what economists call their comparative advantage, every country can produce more and trade for what they do not have, resulting in more goods and services available overall. Academic studies show that this result has consistently occurred for centuries, and the irrefutable mathematics to support it were initially spelled out in the early 1800s. Moreover, US firms must ultimately operate facilities where they are profitable; markets and shareholders, which include the pension funds of many workers, will tolerate nothing less.

While free trade can be a contributing factor to structural changes in our economy, there would also be even larger and more disruptive ones should the US pursue the aggressive protectionist trade agenda that is currently being proffered. Texas and the US are part of the global economy, and working with other nations to lower trade barriers can enhance prosperity for all. A border adjustment tax is the absolute antithesis of sound economic policy.

Concluding Comments

Ties between the US and Mexico benefit both nations, and encompass family relationships, workforce flows, exports and imports, and business linkages. A border tax has the potential to disrupt these ties, to the detriment of both nations. Moreover, such a tax would fail to achieve the apparent objectives of increasing manufacturing jobs in the United States or serving as a vehicle to provide revenues to offset tax reductions in other areas. The outcomes would likely be higher prices for US consumers, retaliatory tariffs, lower overall fiscal revenues, and harms to businesses on both sides of the border.

I am grateful for the opportunity to offer this perspective. I sincerely appreciate all that each of you do for Texas and Texans and would be happy to answer any questions that you may have. If I can assist your efforts in any other way, please let me know. I can be directly reached at ray@perrymangroup.com.

Respectfully submitted,

A handwritten signature in black ink that reads "M. Ray Perryman". The signature is written in a cursive, flowing style.

M. Ray Perryman, PhD, President

The Perryman Group