



Economic Report of the President

Together with
The Annual Report
of the
Council of Economic Advisers

March 2019





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Economic Report of the President



Economic Report of the President

To the Congress of the United States:

For the past two years, my Administration has been focused on strengthening the United States economy to enable greater opportunity and prosperity for all Americans.

During my first year in office, we began by building a foundation of pro-growth policies. We initiated sweeping regulatory reform—issuing 22 deregulatory actions for every new one added—and signed into law the Tax Cuts and Jobs Act, the biggest package of tax cuts and tax reform in our country’s history. Consumer and business confidence skyrocketed as we reversed incentives that had driven away businesses, investment, and jobs for many years. With these cornerstones of a robust economy in place, we restored enthusiasm for doing business in America. This has achieved enormously positive results for American workers and families.

The United States economy has created 5.3 million jobs since I was elected to office. Wage growth continued in 2018, with the lowest-earning workers experiencing the strongest gains. By the fourth quarter of 2018, real disposable personal income per household was up more than \$2,200 from the end of 2017. The national unemployment rate reached a nearly 50-year low of 3.7 percent in September 2018, hovering at or below 4 percent for 11 consecutive months—the longest streak in nearly five decades. Opportunity is expanding so fast that there are more job openings in our economy than there are current job seekers. These positions will be filled as more Americans join the labor force or rejoin it after years of discouragement and pessimism. In January 2019, more than 70 percent of workers entering employment were previously out of the labor force, and the labor force participation rate reached 63.2 percent—the highest since 2013. For the second consecutive year, economic growth has either matched or surpassed my Administration’s forecast, and the economy has grown at a 3.1 percent rate over the last four quarters.

This progress is remarkable. It is a victory for all Americans now benefiting from a strengthened economy. But the greatest triumph of all is this: we have created an era of opportunity in which Americans left behind by previous Administrations are finally catching up and even getting ahead.

An Economic Agenda for the Success of Every American

An economic agenda that enables struggling Americans to succeed begins with the creation of opportunities. Years of misguided policies, however, diminished opportunity, disregarded the importance of American workers for our country’s success, and turned millions of our hard-working citizens into collateral damage. On a massive scale, jobs were lost as unfair trade deals

guttured American manufacturing and a backward tax code drove away businesses and investment. The American people suffered the consequences of past leaders' unalloyed aspirations for global trade; which enriched other nations and impoverished our working families, as we increasingly imported goods formerly made here by American workers. Those seeking hope from Washington received dismissive explanations. They were told that low growth and meager opportunity were the "new normal"—that nothing could be done to stop the damage. Meanwhile, economic hardship derailed families and communities: Hopelessness deepened, and drug abuse and other maladies spread.

Our country could not achieve its highest economic potential with a workforce hollowed out by the mistaken policies of the past—policies that treated our citizens as an afterthought, hurt our most vulnerable workers, and crippled our economy. Over the past two years, my Administration has implemented a pro-growth policy agenda that puts Americans first and creates conditions that enable all our citizens to succeed.

By strengthening the United States economy, we have empowered many groups that historically have had a harder time getting ahead. Unemployment among those without a high school degree is the lowest in nearly 30 years. In the past year, the unemployment rate among women fell to 3.3 percent, matching its lowest rate since 1953. Teenage unemployment reached its lowest rate in nearly 50 years. My Administration has presided over the lowest unemployment rates for people with disabilities on record. Poverty rates for both black Americans and Hispanic Americans reached record lows in 2017. Homelessness among veterans fell by 5.4 percent in the past year. The bottom 10 percent of earners are experiencing the highest wage growth on record, and we have lifted nearly 5 million Americans off food stamps since my election. Revitalized American manufacturing—something once thought impossible—has restored opportunities for American blue-collar workers. In the first two years of my Administration, we have created manufacturing jobs at six times the pace of the previous Administration's last two years, for a total of nearly half a million jobs. Blue-collar workers, on average, are on track to see almost \$2,500 more in annual wages.

The success of America's workers is essential to the success of our country. We will continue to prioritize workforce development in the years ahead, and we will keep fighting on behalf of all Americans seeking opportunities to contribute. In establishing the National Council for the American Worker, my Administration is emphasizing the importance of results-driven job training and reskilling programs; we must equip our students and workers with competitive skills adapted to our rapidly changing economy. This initiative has already secured commitments from the private sector to invest in over 6.5 million retraining opportunities.

An economic agenda that lifts all Americans must also address the destructive effects that over-incarceration has on our families and our communities. With the enactment of the First Step Act of 2018, we have achieved

a bipartisan victory for criminal justice reform. The First Step Act modifies sentencing for less serious crimes and prioritizes rehabilitation to enable former prisoners to reenter society as productive, law-abiding citizens. Well-designed prison programs that help bring families together and give reformed prisoners the tools to find work are crucial for reducing the costs of crime and our over-incarceration.

Finally, we remain committed to encouraging self-sufficiency and advocating for work as the best way to foster human dignity and escape poverty. In our strengthened economy, long-awaited job opportunities have become available to millions of Americans who are eager to support themselves. Although help must be accessible to those who are struggling, expanding work requirements can further reduce both poverty and dependency among those able to work. Over half of all nondisabled, working-age adults receiving food stamps are not working. By finding ways to put their talents to productive use, we would both enrich our society and help them live more fulfilling lives. My Administration values the capabilities of all Americans, and we will continue to implement a pro-growth, pro-opportunity agenda that puts self-sufficiency within reach.

Investing in Innovation and the Future of American Greatness

To maintain economic momentum and expand opportunity in our Nation, we will continue to champion American innovation and entrepreneurship. Smart deregulation and technological advances have unleashed American energy dominance, and made American energy the way of the future. The United States is now the world's single largest producer of crude oil and natural gas. Our strength in the energy sector has invigorated our economy, created jobs, and reduced our dependence on energy from countries that do not share our values.

The instinct to invent and create has driven America forward since its founding and has enabled our country to export ideas that have rapidly improved the world. To do right by our researchers and inventors, we must hold foreign nations to account for stealing our intellectual property and forcing technology transfers. To do right by American taxpayers and consumers, we must continue fighting for lower pharmaceutical drug prices and end global free-riding on Americans' transformative research. And to bolster growth, we must continue to unleash the power of possibility by revolutionizing our Nation's technological capabilities within the industries of the future, including artificial intelligence, advanced manufacturing, and 5G technology.

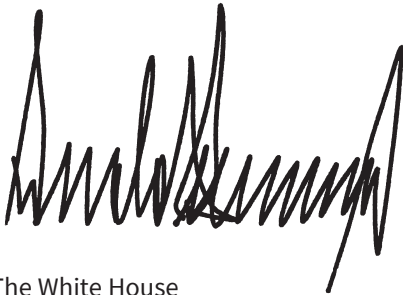
By reducing the costs and confines of oppressive, growth-killing regulation, we have improved the ability of American entrepreneurs to start and expand their businesses. Many aspiring entrepreneurs, however, live in areas of our country that are starved of the capital that entices business investment and creates jobs. The Investing in Opportunity Act, part of our historic tax reform law, is addressing this problem. It is using tax incentives to draw investment into Opportunity Zones, areas struggling with higher unemployment and

poverty. These areas are experiencing increases in commercial real estate transactions, as investors seize on the potential for Opportunity Zones to reignite the American Dream for those who have been left behind.

Our dedication to investing in a brighter future must be paired with a commitment to fixing past mistakes. We have made significant strides to reverse the damage of trade policies that harmed our country for many years. We renegotiated the destructive North American Free Trade Agreement and reached a new agreement, the United States–Mexico–Canada Agreement. We also negotiated a revised United States–Korea Free Trade Agreement. At the time of this *Report*’s publication, we are conducting negotiations with China, the European Union, and Japan. In addition, we intend to begin negotiations with the United Kingdom as soon as it leaves the European Union. With these historic achievements, we have begun an era of trade policy that finally puts the interests of the United States and our hard-working families first.

To improve the welfare of our Nation and its citizens, we are redoubling our efforts to fix an immigration system that has been broken for decades. The chaos at our Southern Border comes at an intolerable cost to American citizens, who deserve peaceful, prosperous communities. We cannot tolerate the crime, drug smuggling, illegal entry, and human trafficking enabled by a porous border. The current system that allows dangerous gang members into our society, strains public services, and rewards those who ignore our laws over those who respect our citizenship process is simply unsustainable for our Nation. We must have an orderly immigration system that honors United States citizenship as the unrivaled privilege we all know it to be.

As shown in the *Report* that follows, we are ushering in an era of renewed dedication to our citizens. It is my great honor to champion the American people and to make their success and well-being my top priority. This pro-growth, pro-opportunity agenda celebrates the irreplaceable value of America’s working families and embraces the extraordinary possibilities for American ingenuity to improve the human condition. It is an economic agenda that lays the foundation for the future of American greatness.

A large, stylized handwritten signature in black ink, which is the signature of Donald Trump.

The White House
March 2019



**The Annual Report
of the
Council of Economic Advisers**



Letter of Transmittal

Council of Economic Advisers
Washington, March 19, 2019

Mr. President:

The Council of Economic Advisers herewith submits its 2019 Annual Report in accordance with the Employment Act of 1946, as amended by the Full Employment and Balanced Growth Act of 1978.

Sincerely yours,

Kevin A. Hassett
Chairman

Richard V. Burkhauser
Member

Tomas J. Philipson
Member

Council of Economic Advisers
Washington, March 19, 2019

Mr. President:

In the 10 chapters that constitute this *Report* the Council of Economic Advisers provides a detailed account of the U.S. economy in 2018, and offers analysis of the Administration's economic policy agenda for the years ahead.

In preparing the *Economic Report of the President* the Council strives to incorporate the most recent data available at the time of the *Report's* statutorily mandated transmittal to Congress, and to ensure through internal processes that our analysis of these data adheres to the strictest standards of verification and replication. Due to delayed data releases owing to a partial government shutdown from December 22, 2018, to January 25, 2019, it was not possible for the Council to incorporate preliminary estimates of gross domestic product and personal income and outlays in the fourth quarter of 2018 while upholding our replication procedures and a production schedule required to comply with the statute.

However, I am pleased to report in this letter that the data confirm and reinforce the findings of this *Report* and do not materially alter its conclusions.

Sincerely yours,

A handwritten signature in black ink, reading "Kevin Hassett", with a stylized star-like flourish at the end of the last name.

Kevin A. Hassett
Chairman

Introduction

In accordance with the Employment Act of 1946, the purpose of this *Report* is to provide the U.S. Congress with “timely and authoritative information concerning economic developments and economic trends” for the preceding year and, prospectively, for the years ahead. As required by the Employment Act, the *Report* also sets forth the Administration’s program for achieving the chartered purpose of:

Creating and maintaining, in a manner calculated to foster and promote free competitive enterprise and the general welfare, conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing, and seeking to work, and to promote maximum employment, production, and purchasing power (79th U.S. Congress, 1946).

In the 10 chapters that constitute this *Report*, we present evidence that the Trump Administration’s policy actions and priorities are thus far delivering economic results consistent with the 1946 mandate.

For the second consecutive year, the U.S. economy outperformed expectations and broke from recent trends by a substantial margin. In June 2017, the Congressional Budget Office projected that during the four quarters of 2018, real gross domestic product (GDP) would grow by 2.0 percent, the unemployment rate would decline by 0.1 percentage point, to 4.2 percent, and employment growth would average 107,000 jobs per month. Instead, real GDP in the first three quarters of 2018 grew at a compound annual rate of 3.2 percent—above the Trump Administration’s own fourth quarter-over-fourth quarter forecast for the second successive year—the unemployment rate declined by 0.4 percentage point, to a near-50-year low of 3.7 percent, and employment growth averaged 223,000 jobs per month. Growth in labor productivity, which averaged just 1.0 percent between 2009:Q3 and 2016:Q4, doubled to 2.0 percent in 2018. Capital expenditures by nonfinancial businesses rose 13.9 percent at a compound annual rate through 2018:Q3.

Figures I-1 through I-4 show that the strong economic performance in 2017 and 2018 was not merely a continuation of trends already under way during the postrecession expansion, but rather constituted a distinct break from the previous pace of economic and employment growth since the start of the current expansion in 2009:Q3. The figures depict observed outcomes before (blue) and after (red) the election, with the dotted lines representing the projected trend estimated on the basis of preelection data. Consistent with conclusions in the 2018 *Economic Report of the President*, investment, manufacturing employment, worker compensation, and new startups have all risen sharply in the two years since the 2016 election.

Figure I-1. Real Private Nonresidential Fixed Investment, 2012–18

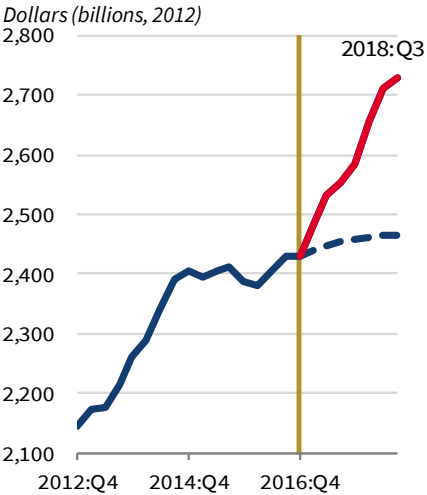


Figure I-2. Durable Goods Manufacturing Employment, 2012–18

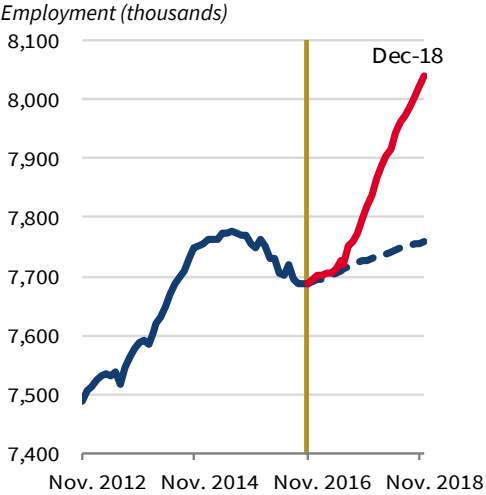


Figure I-3. New Business Applications, 2012–18

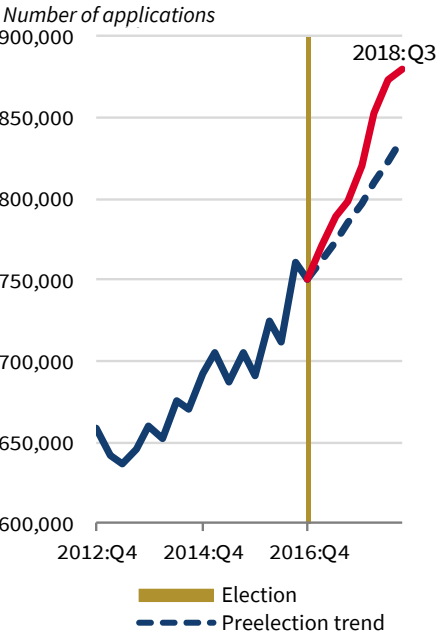
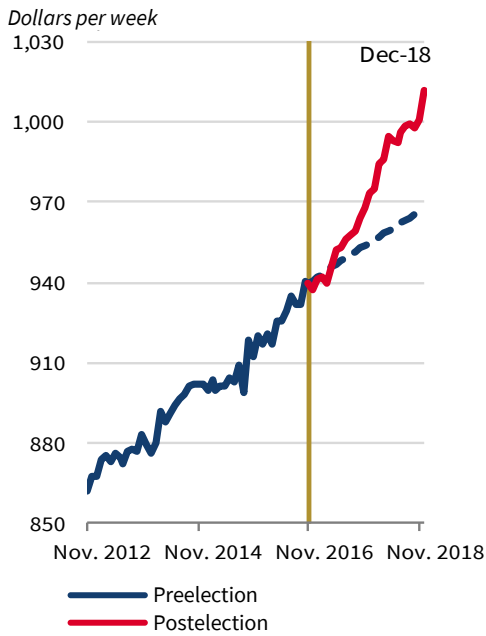


Figure I-4. Average Weekly Earnings of Goods-Producing Employees, 2012–18



Sources: Bureau of Economic Analysis; Bureau of Labor Statistics; U.S. Census Bureau; CEA calculations. Note: All trends are estimated over a sample period covering the entire preelection expansion from 2009:Q3 (2009, July) to 2016:Q4 (2016, November). Figure I-4 represents the average nominal weekly earnings of goods producing production and nonsupervisory employees in nominal dollars. Trends are estimated on compound annual growth rates and levels reconstructed from projected rates.

In addition, overall economic output by the third quarter of 2018 was \$250 billion, or 1.3 percent, larger than projected by the 2009:Q3–2016:Q4 trend, with the compound annual growth rate up 1.2 percentage points over trend. Higher output growth was driven by a marked rise in real private investment in fixed assets, which was 10.6 percent over the projected trend as of the third quarter. In the first three quarters of 2018, the contribution of real private nonresidential fixed investment to GDP growth rose from 0.6 percentage point, the average of the preceding expansion, to 1.0 percentage point, while investment as a share of GDP rose to its second-highest level for any calendar year since 2001. Real private nonresidential fixed investment by nonfinancial businesses rose 8.3 percent at a compound annual rate through 2018:Q3, climbing to a level 14.7 percent above that projected by the 2009:Q3–2016:Q4 trend. As of December 2018, average nominal weekly earnings of goods producing production and nonsupervisory workers had risen \$2,300 above trend on an annualized basis.

In the chapters that follow, we demonstrate that these departures from the recent trend are not accidental but rather reflect the Trump Administration’s deliberate measures to create and maintain conditions under which the U.S. economy can achieve maximum employment, production, and purchasing power. Specifically, a unifying theme throughout this *Report* is that these conditions are generally achieved by providing maximum scope for the efficiency of free enterprise and competitive market mechanisms, and ensuring that these mechanisms are operative in both domestic and global markets.

Beginning with chapter 1, “Evaluating the Effects of the Tax Cuts and Jobs Act,” we use currently available data to examine the Tax Cuts and Jobs Act’s (TCJA’s) anticipated and observed effects, with particular attention to the relative velocities of adjustment along each economic margin. We find that by lowering the cost of capital, the TCJA had an instant and large effect on business expectations, with firms immediately responding to the TCJA by upwardly revising planned capital expenditures, employee compensation, and hiring. We also observe revised capital plans translating into higher capital expenditures and real private investment in fixed assets, with nonresidential investment in equipment, structures, and intellectual property products growing at a weighted average annual rate of about 8 percent from 2017:Q4 through 2018:Q3, climbing to \$150 billion over the pre-TCJA expansion trend of 2009:Q3 through 2017:Q4. (Equipment investment trends are calculated through 2017:Q3, because the TCJA’s allowance of full expensing of new equipment investment was retroactive to September 2017.) In addition to tallying more than 6 million workers receiving bonuses directly attributed to the TCJA, with an average bonus size of \$1,200, we also estimate that real disposable personal income per household rose to \$640 over the trend by the third quarter of 2018, or 16 percent of the CEA’s estimated long-run effect of \$4,000 per

household. In real terms, median usual weekly earnings of all full-time wage and salary workers were up \$805 over trend on an annualized basis.

We also report evidence of a reorientation of U.S. investment from direct investment abroad to investment in the United States, as the TCJA attenuated incentives to shift productive assets and profits to lower-tax jurisdictions. Specifically, in the first three quarters after the TCJA's enactment, U.S. direct investment abroad declined by \$148 billion, while direct investment in eight identified tax havens declined by \$200 billion. In the first three quarters of 2018, U.S. firms repatriated almost \$600 billion in overseas earnings. Based on extensive evidence from a large body of corporate finance literature, we conclude that shareholder distributions through share repurchases are an important margin of adjustment to a simultaneous positive shock to cash flow and investment, constituting the primary mechanism whereby efficient capital markets reallocate capital from mature, cash-abundant firms without profitable investment opportunities to emerging, cash-constrained firms with profitable investment opportunities.

In chapter 2, "Reducing the Burden of Regulatory Costs," we examine the Administration's important deregulatory efforts, which have also led to improved performance over the previous two years. We develop a framework to analyze the cumulative economic impact of regulatory actions on the U.S. economy. As the first Administration to use regulatory cost caps to reduce the cumulative burden of Federal regulation, the Trump Administration in 2017 and 2018 issued more deregulatory actions than regulatory actions and reversed the long-standing trend of rising regulatory costs. By raising the cost of conducting business, regulation can prevent valuable business and consumer activities.

More important, however, we also stress that regulations in one industry affect not only the regulated industry or sector but also the economy as a whole. We find that this implies that official measures understate regulatory costs and therefore also understate the regulatory cost savings of the Trump Administration's regulatory reforms because they do not account for relevant opportunity costs, especially those accruing outside the regulated industry. The official data show that from 2000 through 2016, the annual trend was for regulatory costs to grow by an average of \$8.2 billion each year. In contrast, in 2017 and 2018 Federal agencies took deregulatory actions that resulted in costs savings that more than offset the costs of new regulatory actions. The official data show that in fiscal year 2017, the deregulatory actions saved \$0.6 billion in annualized regulatory costs (with a net present value of \$8.1 billion); and in fiscal year 2018, the deregulatory actions saved \$1.4 billion in annualized regulatory costs (with a net present value of \$23 billion). Looking at just three important deregulatory case studies, the CEA calculates that the three actions will reduce annual regulatory costs by an additional \$27 billion.

Chapter 3, “Expanding Labor Force Opportunities for Every American,” discusses the dramatic effect the revival of the economy has had on labor markets. Consistent with the robust pace of economic growth in the United States, the labor market is the strongest that it has been in decades, with an unemployment rate that remained under 4 percent for much of 2018. Employment is expanding and wages are rising at their fastest pace since 2009. Whenever both quantity and price go up in a market, this must be partly driven by a rise in demand. This suggests that an important change in the labor market has been an increase in the demand for labor, induced potentially by a supply-side expansion enabled by tax reform and deregulation. Although the low unemployment rate is a signal of a strong labor market, there is a question as to whether the rapid pace of hiring can continue and whether there are a sufficient number of remaining potential workers to support continued economic growth. This pessimistic view of the economy’s potential, however, overlooks the extent to which the share of prime-age adults who are in the labor market remains below its historical norm.

As is explored in chapter 3, potential workers could be drawn back into the labor market through Administration policies designed to reduce past tax and regulatory distortions and to encourage additional people to engage in the labor market. Policies examined in this chapter that intend to increase labor force participation include reducing the costs of child care, working with the private sector to increase employer training and reskilling initiatives, and pursuing criminal justice reform to increase labor force engagement among affected communities. We also highlight the potential benefits of reducing occupational licensing, and incentivizing investment in designated Opportunity Zones to improve economically distressed areas, as provided for in the TCJA.

In chapter 4, “Enabling Choice and Competition in Healthcare Markets,” we seek to address the 1946 mandate for this *Report* to analyze how to “foster and promote free and competitive enterprise” to a greater extent in the U.S. healthcare sector. We discuss the rationales commonly offered for government intervention in healthcare and explain why such interventions often, and unnecessarily, restrict choice and competition, demonstrating that the resulting government failures are frequently more costly than the market failures they attempt to correct. In light of recent public proposals to dramatically increase government intervention in healthcare markets, such as “Medicare for All,” we also analyze how these proposals eliminate or decrease choice and competition. As a result, we find that these proposals would be inefficient, costly, and likely reduce, as opposed to increase, the population’s health. Funding them would create large distortions in the economy, with the universal nature of “Medicare for All” constituting a particularly inefficient way to finance healthcare for lower- and middle- income people.

We contrast such proposals with the Trump Administration's actions that are increasing healthcare choice and competition for healthcare. We focus on the elimination of the Affordable Care Act's individual mandate penalty, which will enable consumers to decide for themselves what value they attach to purchasing insurance and which we project will generate \$204 billion in value over 10 years. Expanding the availability of association health plans and short-term, limited-duration health plans will increase consumer choice and insurance affordability. We find that taken together, these three sets of actions will generate a value of \$453 billion over the next decade. On the pharmaceutical front, the Food and Drug Administration is increasing price competition by streamlining the drug application and review process at the same time that record numbers of generic drugs are being approved, price growth is falling, and consumers have already saved \$26 billion through the first year and a half of the Administration. In addition, the influx of new, brand name drugs resulted in an estimated \$43 billion in annual benefits to consumers in 2018.

Chapter 5, "Unleashing the Power of American Energy," discusses the important role of energy markets in the new economic revival and the Administration's goal of stimulating free market innovation to enable U.S. energy independence. Coal production stabilized in 2017 and 2018 after a period of contraction in 2015 and 2016. The United States is now a net exporter of natural gas for the first time in 60 years, and petroleum exports are increasing at a pace that suggests positive net exports by 2020. Taking advantage of America's abundant energy resources is a key tenet of the Trump Administration's plan for long-term economic growth as well as national security. This is best achieved by recognizing that price incentives and the role of technological innovation—which is guided by the price incentive in a market economy like that of the United States—are critical for understanding the production of both renewable natural resources and nonrenewable natural resources like petroleum.

By enabling domestic production, the Administration seeks to facilitate the evolution of the U.S. economy's role in global markets. Since the President took office, the U.S. fossil fuels sector has set production records. These were led by technological improvements, tax changes that lowered the cost of investing in mining structures, elevated global prices, and deregulatory actions that raised the expected returns of energy projects. Chapter 5 documents 65 deregulatory actions affecting the energy sector that were completed through the end of fiscal year 2018, with projected present value savings of over \$5 billion.

In chapter 6, "Ensuring a Balanced Financial Regulatory Landscape," we revisit the causes and consequences of, and responses to, the financial crisis of 2008. In particular, we identify that the absence of actuarially fair pricing of implicit government guarantees of financial institutions and markets was a major factor exacerbating the crisis. Unfortunately, we also find that the salient

legislative response to the crisis—the 2010 Dodd-Frank Act—not only failed to resolve this flaw but also excessively raised regulatory complexity, with the increased cost of compliance falling disproportionately on small and mid-sized financial institutions, which account for a disproportionate share of commercial and industrial lending to small and medium-sized enterprises.

In addition to articulating the Administration’s approach to achieving the Seven Core Principles for financial regulation, established by Executive Order 13772, chapter 6 also demonstrates how the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018 released small and medium-sized banks from the more restrictive provisions of Dodd-Frank, while preserving heightened regulatory oversight of genuinely systemically important financial institutions.

Again reflecting the CEA’s 1946 mandate to evaluate “current and foreseeable trends in the levels of employment, production, and purchasing power,” chapter 7, “Adapting to Technological Change with Artificial Intelligence while Mitigating Cyber Threats,” analyzes how technological change in information technology is likely to affect future U.S. labor markets. We begin by reviewing the latest developments in artificial intelligence (AI) and automation, concluding that a narrow, static focus on possible job losses leads to a misleading picture of the likely effects of AI on the Nation’s economic well-being. Technological advances might eliminate specific jobs, but they do not generally eliminate work, and over time they will likely greatly increase real wages, national income, and prosperity.

For example, technological change enabled many agricultural economies to transition from having a majority of the economy being devoted to food production to a small percentage of the economy being able to better feed its population than before. Automation can complement labor, adding to its value, and even when it substitutes for labor in certain areas, it can lead to higher employment in other types of work and raise overall economic welfare. That appears likely to be the case as AI applications diffuse through the economy in the future, though important new challenges will arise concerning cybersecurity. Indeed, AI appears poised to automate or augment economic tasks that had long been assumed to be out of reach for automation.

Despite the economic resurgence of the past two years, there has been a rise in interest in vacating the free enterprise principles that have been instrumental to that recovery, and in turning instead to more socialized production methods that have generally been abandoned in countries that have tried them. Consistent with the 1946 mandate for this *Report*, we therefore turn, in chapter 8, “Markets versus Socialism,” to reviewing the empirical evidence on the economic effects of varying degrees of socialization of productive assets and the income generated by those assets. Hayek (1945) argued that the essential role of a competitive market price mechanism is to communicate dispersed and often incomplete knowledge, whereby firms will expand and consumers

contract activity when prices are high and vice versa when prices are low, with both sides of the market thereby being guided by prices to equate demand with supply. We find that experiences of socialism that do not use prices to guide production and consumption this way have generally been characterized by distorted incentives and failures of resource allocation—in some extreme instances, on a catastrophic scale.

In addition to quantifying the human and economic costs of highly socialist systems, we also estimate the effects of more moderate degrees of socialization. We find that even among market economies, average income and consumption are lower in those with relatively high levels of government taxes and transfers as shares of output—such as Denmark, Sweden, Norway, and Finland—than in the United States. This is because the relatively high average tax rates on middle incomes that finance this “Nordic model” also disincentivize generating income in the first place. Finally, we estimate that if the recent U.S. proposals for socialized medicine in terms of “Medicare for All” were implemented and financed by higher taxes, GDP would decline by 9 percent, or about \$7,000 per person, in 2022.

In chapter 9, “Reducing Poverty and Improving Self-Sufficiency in America,” we discuss the impact of the revival of the economy, more specifically on low-income households, and the Trump Administration’s approach to escaping poverty through economic growth and work-based public policies. President Lyndon B. Johnson declared a War on Poverty in January 1964. When using a full-income measure of poverty that is capable of capturing success in the War on Poverty, we find that poverty declined from 19.5 percent in 1963 to 2.3 percent in 2017. This far exceeds the decline from 19.5 to 12.3 percent according to the Official Poverty Measure. However, victory was not achieved by making people self-sufficient, as President Johnson envisioned, but rather through increased government transfers. A new war on poverty should seek to further reduce material hardship based on modern standards, but should do so through incentives to achieve work and self-sufficiency. We discuss the Trump Administration’s important actions along these lines: expanding work requirements for nondisabled, working-age welfare recipients in noncash welfare programs; increasing child care assistance for low-income families; and increasing the reward for working by doubling the Child Tax Credit and increasing its refundability.

Finally, in chapter 10, “The Year in Review and the Years Ahead,” we analyze important macroeconomic developments in 2018 and present the Trump Administration’s full, policy-inclusive economic forecast for the next 11 years, including risks to the forecast. Overall, assuming full implementation of the Trump Administration’s economic policy agenda, we project real U.S. economic output to grow at an average annual rate of 3.0 percent between 2018 and 2029. We expect growth to moderate, from just over 3.0 percent in 2018 and 2019, as the capital-to-output ratio asymptotically approaches its

new, postbusiness tax reform steady state and as the near-term effects of the TCJA's individual provisions on the rate of growth dissipate into a permanent level effect.

Partially offsetting this moderation are the expected contributions of the supply-side effects of the Trump Administration's current and future deregulatory actions, as discussed in chapter 2; the permanent extension of the personal income tax provisions of the TCJA, as discussed in chapter 1; and the Administration's infrastructure proposal, as analyzed in the 2018 *Economic Report of the President*. In chapter 10, we also explore potential downside risks to the forecast, including nonimplementation, or repeal, of the Trump Administration's economic policy agenda, slowing economic growth in major economies outside the United States, and the possible adverse economic effects of recent public proposals for "Medicare for All" and a top marginal income tax rate of 70 percent.

Collectively, the 10 chapters that constitute this *Report* demonstrate that the strong economic performance in 2017 and 2018 constituted a sharp break from the previous pace of economic and employment growth since the start of the present expansion, reflecting the Administration's reprioritization of economic efficiency and growth over alternative policy aspirations that subordinated growth. We further demonstrate that a unified agenda of tax, regulatory, labor, healthcare, financial, and energy market reforms that enhance the role of market prices is a more efficient and effective approach to unleashing the growth potential of the U.S. economy. The CEA's mandate under the Employment Act of 1946 is to advise on how best to achieve "maximum employment, production, and purchasing power." To this end, this *Report* provides evidence supporting the CEA's endorsement of free, competitive enterprise relying on market prices to guide economic activity over alternatives demanding increased socialization of productive assets and a consequently diminished role for market prices.

