Chapter 9

The Outlook for a Continued Expansion

As this *Report* has shown, under the Trump Administration, economic growth and the labor market gains it enables have exceeded pre-2017 expectations. The U.S. economy's performance has withstood strong headwinds from a weak global economy and several idiosyncratic domestic shocks, as pro-growth policies have kept the U.S. economy resilient.

By increasing competition, productivity, and wages, and reducing the prices of consumer goods and services, the Administration's approach to regulation is raising real incomes while maintaining regulatory protections for workers, public health, safety, and the environment. Specifically, the Administration's approach to eliminating excessive regulation of energy markets supports further unleashing of the country's abundant human and energy resources. Furthermore, the Administration's healthcare reforms are building a system that delivers high-quality care at affordable prices through greater choice and competition. Across the board, this pro-growth agenda has disproportionately benefited those previously left behind during the current expansion.

To further expand the economy and extend the longest expansion in U.S. history, additional policy issues may need to be addressed. This challenge is why the Trump Administration remains focused on promoting competitive markets, combating the opioid crisis, promoting affordable housing, enacting a comprehensive infrastructure plan, rendering the individual provisions of the 2017 Tax Cuts and Jobs Act permanent, updating the U.S. immigration system, continuing deregulatory actions, improving trade agreements and international trade practices, and incentivizing higher labor force participation through additional labor market reforms.

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 2.9 percent over the budget window from 2019 to 2030. During that time, inflation is expected to settle at a 2.0 percent fourth-quarter-over-fourth-quarter rate, and the unemployment rate is expected to remain at or below an annual average rate of 4.0 percent. Relative to the current-law baseline projection, we estimate that full policy implementation of the Administration's economic agenda would cumulatively raise output by 4.3 percent over this budget window.

The first three years of the Trump Administration show that long-lamented structural trends that were constraining potential growth in the United States are not policy-invariant. The right pro-growth policies attract greater investment, encourage more people to enter the labor market, and lead to higher wages from businesses investing in and competing for workers. Even with recent success, there is ample room for the U.S. economy to expand, especially if the Administration's approach to international trade produces results that are greater than expected.

Since 1975, the Council of Economic Advisers, in collaboration with the Office of Management and Budget and the U.S. Department of the Treasury, has published a long-run forecast for the U.S. economy that assumes full enactment and implementation of the Administration's economic policy agenda. This reflects the Council's mandate, as stipulated in the Employment Act of 1946, to set forth in the *Economic Report of the President* "current and foreseeable trends in the levels of employment, production, and purchasing power," and a program for carrying out the objective of "creating and maintaining . . . 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." Since 1996, execution of this mandate has involved providing an 11-year, policy-inclusive economic forecast.

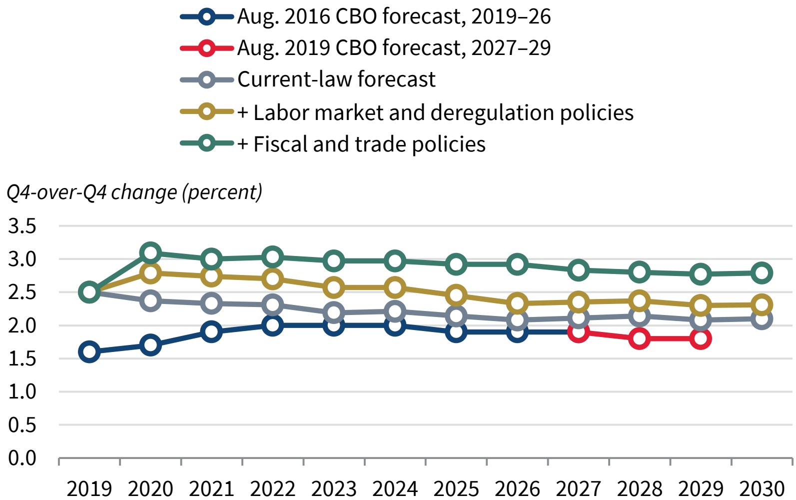
Because of this charge, the Administration's forecast is historically unique from other long-run economic forecasts, both official and private. The Congressional Budget Office, for example, publishes a current-law forecast, which assumes no change in economic policy (CBO 2019). The Blue Chip panel of professional private sector forecasters often reveals substantial heterogeneity in expectations, reflecting both different estimates of economic potential under current law, as well as objective and subjective estimations of the probability of policy implementation. Although the assumptions underlying projections of the Federal Open Market Committee are ambiguous, those forecasts presumably also reflect committee members' differing views both on potential growth under current law, as well as potential growth under possible future law.

To better distinguish the estimated effects of the Administration's economic policy objectives—the results of which may be contingent on legislative support and other factors—from current-law projections, beginning with the 2018 *Economic Report of the President* and continuing through this *Report*, we have decomposed this forecast into a current-law baseline and intermediate and top lines that reflect estimated growth effects discussed in this *Report*, as well as in the 2018 and 2019 *Reports* and the President's Fiscal Year 2021 Budget. We then build up to our top-line, policy-inclusive forecast by successively adding to the current-law baseline the estimated effects of future deregulatory actions, immigration reform, additional labor market reforms to incentivize higher labor force participation, rendering the individual provisions of the Tax Cuts and Jobs Act (TCJA) permanent, additional fiscal policy proposals, including the Administration's infrastructure plan, and improved trade deals with international trading partners. The top-line forecast constitutes the Administration's official "Troika" forecast of the Council of Economic Advisers, Office of Management and Budget, and Department of Treasury. For comparison, we also report a pre-policy baseline consisting of the Congressional Budget Office's 2019–27 projection made in August 2016, extended by its August 2019 current-law projection.

GDP Growth during the Next Three Years

As illustrated in figure 9-1 and reported in the third column ("real GDP") of table 9-1, the Administration anticipates economic growth to rise in 2020 from its projected 2019 pace of 2.5 percent, and to remain at or above 3.0 percent through 2022, assuming full implementation of the economic agenda detailed in this *Report*, its two predecessors, and the President's Fiscal Year 2021 Budget. We expect near-term growth to be supported by the continuing effects of the TCJA, as well as new measures to promote increased labor force participation, deregulatory actions, immigration reform, reciprocal trade deals,

Figure 9-1. Forecast of Growth Rate in Real GDP, 2019–30



Sources: Bureau of Economic Analysis; Bureau of Labor Statistics; Congressional Budget Office; Department of the Treasury; Office of Management and Budget; CEA calculations.
Note: The current-law forecast is based on data available as of October 31, 2019.

and an infrastructure program, which we assume will commence in 2020 with observable effects on output beginning in 2021.

The Administration also expects the labor market to continue to exhibit strength in the near term, with the civilian unemployment rate remaining below 4.0 percent through 2022, as reported in the sixth column, “unemployment rate,” of table 9-1. Despite low unemployment, inflation is expected to remain low and close to the Federal Reserve Board’s 2.0 percent target for the Personal Consumption Expenditures Price Index. The Administration expects broad inflation beyond 2019 to remain stable at 2.0 percent through 2022, as shown in the fourth column (“GDP price index”) of table 9-1.

GDP Growth over the Longer Term

As discussed in the 2018 and 2019 volumes of the *Economic Report of the President*, over the longer term, the Administration’s current-law baseline forecast is for output growth to moderate as the capital-to-output ratio asymptotically approaches a higher steady state level in response to corporate tax reform, and as the near-term effects of the TCJA’s individual provisions on the rate of growth dissipate into a permanent level effect. As reflected by our intermediate forecast, we expect the latter moderation would be partially offset in

Table 9-1. The Administration's Economic Forecast, 2018–30

Year	Percent change (Q4-to-Q4)				Level (calendar year average)		
	Nominal GDP	Real GDP (chain-type)	GDP price index (chain-type)	Consumer price index	Unemployment rate (percent)	Interest rate, 91-day Treasury bills (percent)	Interest rate, 10-year Treasury notes (percent)
2018 (Actual)	4.9	2.5	2.3	2.2	3.9	1.9	2.9
2019	4.2	2.5	1.8	1.9	3.7	2.1	2.2
2020	5.2	3.1	2.0	2.3	3.5	1.4	2.0
2021	5.1	3.0	2.0	2.3	3.6	1.5	2.2
2022	5.1	3.0	2.0	2.3	3.8	1.5	2.5
2023	5.1	3.0	2.0	2.3	4.0	1.6	2.7
2024	5.1	3.0	2.0	2.3	4.0	1.7	3.0
2025	5.0	2.9	2.0	2.3	4.0	2.0	3.1
2026	4.9	2.8	2.0	2.3	4.0	2.2	3.1
2027	4.9	2.8	2.0	2.3	4.0	2.4	3.1
2028	4.9	2.8	2.0	2.3	4.0	2.5	3.1
2029	4.9	2.8	2.0	2.3	4.0	2.5	3.2
2030	4.9	2.8	2.0	2.3	4.0	2.5	3.2

Sources: Bureau of Economic Analysis; Bureau of Labor Statistics; Department of the Treasury; Office of Management and Budget; CEA calculations.
Note: This forecast was based on data available as of October 31, 2019. The interest rate on 91-day T-bills is measured on a secondary-market discount basis. Nominal GDP and the sum of real GDP and the GDP price index may differ slightly due to rounding.

2026 and 2027 if the individual provisions of the TCJA—currently legislated to expire on December 31, 2025—were instead made permanent.

The Administration's full policy-inclusive forecast is reported as the green line in figure 9-1. In addition to successful implementation of the President's infrastructure plan and extension of the individual provisions of the TCJA, this forecast assumes full achievement of the Administration's agenda with respect to deregulation, immigration, improved trade agreements, fiscal consolidation, and labor market policies designed to incentivize higher labor force participation. The latter includes expanding work requirements for nondisabled, working-age welfare recipients in noncash welfare programs; increasing child-care assistance for low-income families; and enhancing assistance for reskilling programs through the National Council for the American Worker.

Though we anticipate growth moderating toward the end of the budget window, to 2.8 percent on average between 2019 and 2030, the policy-inclusive forecast is for output to grow at an average annual rate of 2.9 percent. Relative to the current-law baseline, we estimate that full policy implementation would cumulatively raise the level of output by 4.3 percent over the budget window. Reflecting moderating growth in the latter half of the budget window, the Administration expects unemployment to converge to 4.0 percent, consistent

Table 9-2. Supply-Side Components of Actual and Potential Real Output Growth, 1953–2030

	Component	Growth rate (percentage points) 1953:Q2 to 2019:Q3	2019 to 2030
1	Civilian noninstitutional population age 16+	1.4	0.9
2	Labor force participation rate	0.1	−0.2
3	Employed share of the labor force	0.0	0.0
4	Ratio of nonfarm business employment to household employment	0.0	0.0
5	Average weekly hours (nonfarm business)	−0.2	0.1
6	Output per hour (productivity, nonfarm business)	2.0	2.6
7	Ratio of real GDO to nonfarm business output	−0.3	−0.5
8	Sum: Actual real GDO[a]	3.0	3.0
	Memo:		
9	Potential real GDO	3.0	3.0
10	Output per worker differential: GDO vs. nonfarm	−0.3	−0.4

[a] Real GDO and real nonfarm business output are measured as the average of income- and product-side measures.
Sources: Bureau of Labor Statistics; Bureau of Economic Analysis; Department of the Treasury; Office of Management and Budget; CEA calculations.
Note: All contributions are in percentage points at an annual rate, forecast finalized November 1, 2019. Total may not add up due to rounding. The quarter 1953:Q2 was a business-cycle peak; 2019:Q3 is the latest quarter with available data. Gross domestic output (GDO) is the average of GDP and gross domestic income. Population, labor force, and household employment have been adjusted for discontinuities in the population series.

with the Federal Open Market Committee's December 2019 "Summary of Economic Projections," which reports a range of participant estimates from 3.9 to 4.3 percent (Federal Reserve 2019). The unemployment rate rising to 4.0 percent is also expected to maintain a rate of inflation of 2.0 percent, as measured by the GDP chained price index (see the fourth column of table 9-1).

As shown in table 9-2, the Administration anticipates that the primary contributor to increased growth through 2029 will be higher output per hour worked. During much of the current expansion, U.S. labor productivity growth was disappointing by historical standards, partly due to low contributions of capital deepening. By substantially raising the capital stock and consequent flows of capital services, attracting increased net capital inflows—including investment both by foreign firms and overseas affiliates of U.S. multinational enterprises—and facilitating efficient capital reallocation from mature firms to more dynamic enterprises, we expect enactment of corporate tax reform to considerably increase capital per worker, and thus labor productivity. Already, during the first seven quarters since the TCJA was enacted, labor productivity growth in the nonfarm business sector rose substantially relative to its pre-TCJA, postrecession average, as reported in chapter 1 of this *Report*. If fully implemented, we also expect the Administration's labor market reforms to partially offset the effects of demographic-related trends in labor force participation, as reflected in line 2 of table 9-2.

Upside and Downside Forecast Risks

Since the Administration's forecast is a policy-inclusive one, a key downside risk is the political contingency of full implementation of the President's economic agenda, particularly in light of the inherent unpredictability of the legislative process. In addition, by definition the policy-inclusive forecast assumes that the Administration's policies will be implemented and remain in place throughout the forecast window. In scenarios where future Administrations or Congress partially or fully reverse the TCJA, otherwise raise taxes, or significantly expand the Federal regulatory state, economic growth would be lower or even negative. For example, the 2019 *Economic Report of the President* estimated that "Medicare for All" bills then discussed in Congress would reduce real GDP by about 9 percent in the long run if financed by taxes on labor income, while recent proposals to introduce a top marginal income tax rate of 70 percent on personal income over $10 million would lower the long-run level of GDP by 0.2 percent.

As observed in the 2019 *Report* and discussed in chapter 1 of this *Report*, a sharp slowdown in the global economy also poses a significant downside risk to the outlook, through both direct and indirect channels. In particular, continued or worsening weakness in other advanced economies—particularly Germany and Italy, but also Europe more broadly, in the event of Brexit-related disruptions—would have an adverse impact on U.S. growth through both a direct export channel and indirect exchange rate, financial market, and supply chain channels. A significant growth slowdown in the People's Republic of China, similar to that observed in the years 2015–16, would also introduce substantial risks to the outlooks for advanced economies, including the United States. High public debt levels in several advanced and emerging economies may generate economic headwinds, while high corporate debt levels in the United States could act as an accelerant to potential adverse financial shocks.

Idiosyncratic shocks also pose risks to the outlook. In 2019, these included but were not limited to production cuts at Boeing—whose production accounts for 0.23 percent of U.S. GDP—a partial government shutdown in the first quarter, and industrial action at General Motors. As this *Report* was being finalized, Boeing announced plans to halt production of the 737 MAX, a development that could subtract 0.5 percent from annualized real GDP growth in the first quarter of 2020.

Perhaps the single biggest upside risk to the outlook is that the Administration's more robust approach to international trade achieves greater-than-expected success in its pursuit of freer, fairer trade, with zero tariffs, zero nontariff barriers, and zero subsidies. Recent research by the Organization for Economic Cooperation and Development (Cadot, Gourdon, and van Tongeren 2018; Lamprecht and Miroudot 2018; OECD 2018) finds that lowering international tariff and nontariff barriers to trade, as well as reducing international restrictiveness on trade in services, would substantially raise U.S. and global trade and output. With investment in intellectual property products now accounting for about one-third of U.S. private nonresidential fixed investment, trade agreements that enhance international protection of intellectual property—such as the United States–Mexico–Canada Agreement and Phase I of U.S.-China negotiations—could also elevate the level of innovation and productivity growth.

Additional upside risks to the forecast include, first, higher net capital inflows due to international capital mobility exceeding estimates, which would attenuate the potential crowding out of private fixed investment in response to individual tax reform and public infrastructure investment. Second, academic studies demonstrating that individual marginal income tax rates may have differential effects across the age distribution suggest that estimated trends in labor force participation may overstate the growth-detracting effect of demography. Third, insofar as the growth estimates presented in this *Report* and its predecessor have been derived from standard neoclassical growth models, they may omit the positive externalities and spillover effects captured by endogenous growth models, such as that of Ehrlich, Li, and Liu (2017). Tax reform that incentivizes investment in human capital, regulatory reform that eliminates prohibitive barriers to entry for more innovative and entrepreneurial firms, and health investments and labor market policies that facilitate human capital accumulation may, therefore, yield higher-growth dividends than those estimated here.