CHAPTER 1: MACROECONOMIC OVERVIEW

OVERVIEW

The *Economic Report of the President* (the *Report)* presents a misleading picture of recent economic trends, making overly optimistic projections of economic growth, cherry picking data, low-balling the debt and omitting entire subjects. It implausibly claims credit for conditions and trends inherited from the Obama Administration. In addition, it glosses over the economic costs of numerous self-inflicted economic wounds by the Trump Administration, including reckless trade wars, an unnecessary government shutdown and massive tax cuts that favored the wealthy and will add $1.9 trillion to the debt.[1]

This chapter presents a more balanced and mainstream overview of U.S. economic trends and indicators, assesses the Administration's policies that have affected these trends and examines headwinds that are slowing long-term economic growth. Later chapters explore some of the challenges that the economy and individuals face, as well as disparities in economic outcomes across different segments of the population.

STATE OF THE ECONOMY

The U.S. economy has come a long way in the last 10 years. After the worst recession since the Great Depression—during which unemployment peaked at 10 percent and nearly $13 trillion in household wealth was lost—the unemployment rate now stands at a level not seen since December 1969.[2] By the end of the Obama Administration, housing prices had largely rebounded. Wages are starting to grow again. These trends are the result of a nearly decade-long expansion, spurred by actions taken by the Federal Reserve, the Obama Administration and Congressional

Democrats. Two prominent economists, Alan Blinder and Mark Zandi, projected that without these actions, the recession would have been twice as large and twice as long.[3]

Economic Growth

After contracting by more than four percent in the Great Recession, the economy has recovered substantially, even though growth has been uneven throughout the recovery. This long-term trend continued through the first half of 2019, with quarterly annualized real growth rates ranging from 2.2 to 4.2 percent. In total, the economy grew by 3.0 percent from the fourth quarter of 2017 to the fourth quarter of 2018.[4] This boost in growth likely reflected a short-term stimulus from the deficit-fueled Tax Cuts and Jobs Act (TCJA). Unfortunately, as the sugar high wears off, growth will quickly revert to its long-term trends. Although first quarter 2019 GDP growth was 3.1%, the New York and Atlanta Federal Reserve currently forecast second quarter growth rates of 1.5% and 1.4%, respectively.[5]

The *Report* predicts sustained 3 percent growth, but only with a second round of tax cuts, $1 trillion in new infrastructure investment and new policies that it claims will bring people into the labor force. These estimates are far out of the mainstream consensus. The Congressional Budget Office (CBO) projects that growth will slow to 2.3 percent in 2019 and 1.7 percent in 2020.[6] The median Federal Reserve projection shows growth slowing to 2.1 percent in 2019 and 2.0 percent in 2020.[7] The International Monetary Fund projects 2.3 percent growth in 2019.[8] These nonpartisan predictions show that the *Report*'s projection of sustained 3 percent growth is unlikely.

The White House cherry-picks growth indicators to present a misleading picture of long-term trends. For instance, it claims that

the fourth quarter of 2018 had the highest year-over-year growth rate for any fourth quarter since 2005—this was technically true but ignores the fact that there were higher growth rates in the third quarter of 2010, the third quarter of 2014 and the first and second quarters of 2015.[9] In other words, the fourth quarter of 2018 was the fastest pace of growth in more than a decade only if you ignore three-fourths of the data.

Similarly, when comparing annualized quarterly growth rates (see *Figure 1-1*), the economy experienced higher growth rates during the Obama Administration than over the last year. The Administration fails to mention these facts when falsely claiming that they have ushered in a new era of growth.

Figure 1-1

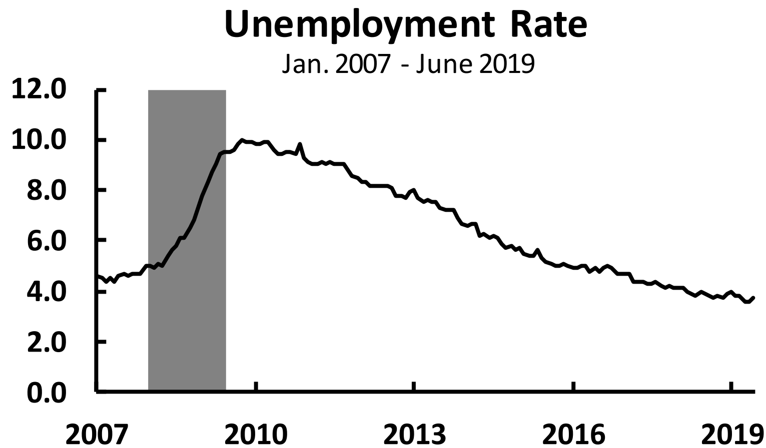
Growth over the last year largely was boosted by positive contributions from government spending and lower tax revenue. The fourth quarter of 2017 through the end of 2018 represented the first sustained positive fiscal contribution for the federal

government since the American Recovery and Reinvestment Act (ARRA).[10] Ironically, when during the Great Recession the economy was in dire need of stimulus, Republicans opposed it. Now, during the strong economy left by the Obama Administration and with unemployment below four percent, they have embraced massive stimulus in the form of tax cuts.

The Labor Market

During the Great Recession, the unemployment rate doubled, peaking at 10 percent in the fall of 2009; by the time President Obama left office, the unemployment rate had fallen to 4.7 percent.[11] The economy had hemorrhaged more than 3 million jobs in the first four months of 2009 alone.[12] Spurred by the ARRA and other federal stimulus efforts, including actions taken by the Federal Reserve, the economy began consistently adding jobs in 2010. By the end of the Obama Administration, the United States labor market had already added jobs for 76 consecutive months. By June 2019, the streak was extended to 105 straight months.[13]

Figure 1-2



Source: Bureau of Labor Statistics, using the Civilian Unemployment Rate Ages 16+, Seasonally Adjusted

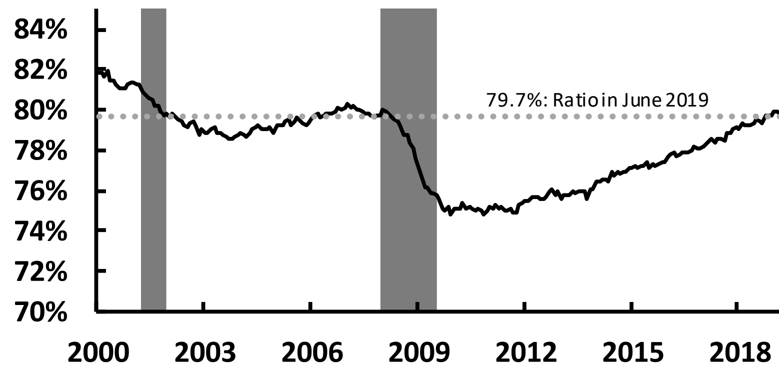
During the first two and a half years of the Trump Administration, this downward trend in unemployment has continued, with unemployment dropping from 4.7 percent in January 2017 to 3.7 percent in June 2019.[14] Recent unemployment rates have been lower than at any point in the previous business cycle and lower than many economists' estimates of full employment.[15]

At the same time, inflation remains low and wages have only recently started to rise, suggesting that the labor market is not quite at its full productive capacity. The explanation for this can be found in alternative measures of the labor market, such as the employment to population ratio of prime-age workers, which is only just now starting to reach its prerecession levels and still has room to increase further. In April 2000, this measure peaked at 81.9 percent. In June 2019, it stood at 79.7 percent.[16]

Figure 1-3

Employment to Population Ratio

Ages 25 to 54



Source: St Louis Federal Reserve

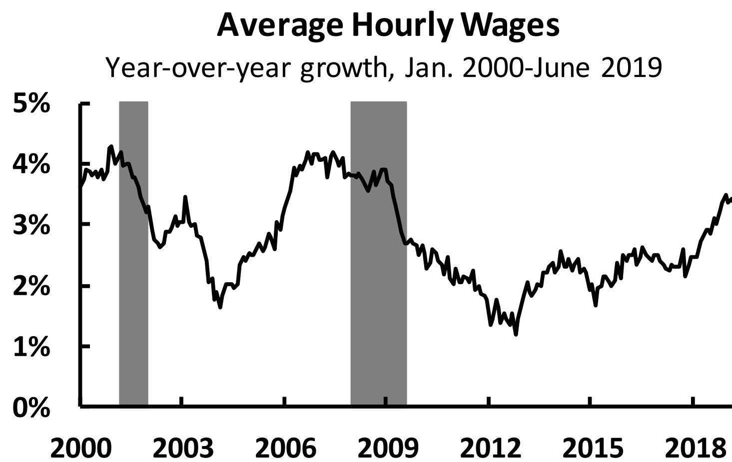
These trends suggest that workers who had dropped out of the labor force during the recession are starting to come back as their job prospects improve. Many of these individuals likely face high barriers to entering the workforce. For example, they may be suffering from a disability or have spent a considerable amount of time unemployed.[17] As it becomes tougher for employers to fill openings, they are more likely to look for workers from historically marginalized groups. Pulling them into the labor force allows the economy to add jobs without raising inflation concerns. Recent research has shown that particularly tight labor markets tend to disproportionately benefit disadvantaged groups and that these gains persist into the future.[18]

Wage Growth

The continued presence of labor market slack helps explain why wage growth remained sluggish up until mid-2018 even as the unemployment rate continued to drop. As employers looked to

hire in the expansion, they were able to find sidelined workers willing to work for relatively low wages, rather than having to offer higher wages to people already employed elsewhere. Average wages for production and nonsupervisory workers—a category that offers a real-time approximation of the median wage—picked up in 2018 as the labor market further tightened, but are still growing at a rate below their prerecession levels.[19]

Figure 1-4



Encouragingly, recent wage growth has been the most robust at the bottom of the wage distribution. From 2017 to 2018, growth was substantially higher for workers at the 20th and 30th percentile of the income distribution than at the 95th percentile.[20] This comes on the heels of sluggish growth at the bottom over the last several decades.[21] These long-term trends are explored more in the chapter on *Economic Inequality*.

Economic Disparities

An important caveat to current labor market trends is that not everyone in the United States is experiencing the same strong trends. The unemployment rate remains almost twice as high for black workers (who faced an unemployment rate of 6.0 percent in June) and a third higher for Hispanic workers (4.3 percent unemployment) than for white workers (3.3 percent).[22] Homeownership rates, incomes and wealth also remain lower for those groups. Labor force participation rates and wages remain lower for women than men.[23] Millennials remain affected by beginning their careers during or in the wake of the financial crisis.[24] These disparities and others are explored in later chapters.

ASSESSMENT OF THE TAX CUTS

The *Report* claims that the recent tax cuts passed in TCJA are the main drivers of the current strong labor market and economy. While the deficit-financed TCJA likely acted as a temporary stimulus in 2018, there is little logic in linking the year-old law to the nine-year-long trend of a strengthening economy. Instead, the tax cuts were a windfall for the wealthy and likely will have little long-run positive effect on the economy.

Economic Effects of the TCJA

The theory behind the corporate tax cuts in the TCJA was to incentivize companies to invest in America, leading to job creation, higher wages and broad prosperity. While tax rates and structures are important and have economic implications, many of the Administration's claims are outside the mainstream economic consensus. In reality, the TCJA will lead to little in raises for workers, higher income inequality and debt, little business

investment and, ultimately, little boost to gross domestic product (GDP) growth.

Income and Wages: During the tax cut debates, the CEA claimed that the TCJA would lead to at least a $4,000 increase in average household income.[25] This claim has been widely dismissed by mainstream economists.[26] Former Treasury Secretary and Harvard professor Lawrence Summers said "[T]here is no peer-reviewed support for his central claim that cutting the corporate tax rate from 35 percent to 20 percent would raise wages by $4,000 per worker…The claim is absurd on its face."[27]

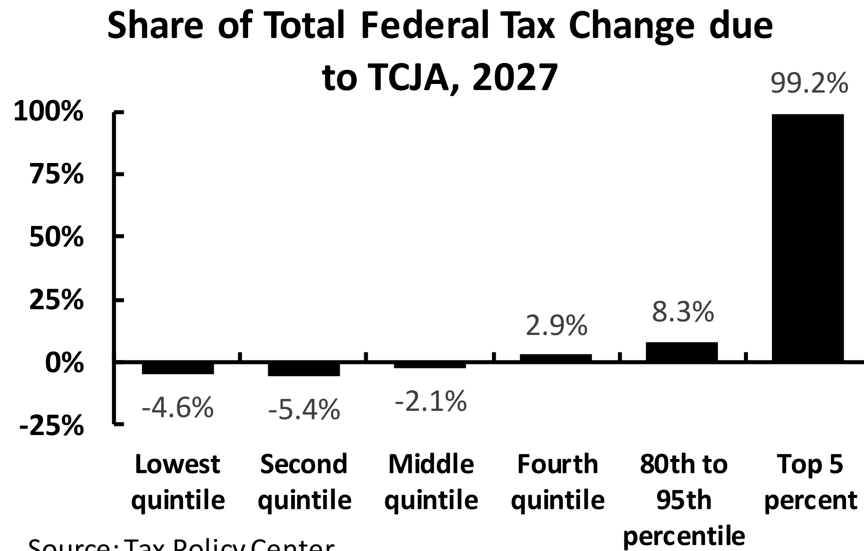
The fact that the claim is far outside the mainstream is demonstrated by the estimate's implied corporate tax incidence rate on worker wages. Ultimately, corporate taxes come out of either workers' wages or the return to shareholders—the tax incidence measures the share of which is born by each. As economist Ben Harris testified to the JEC in 2018, the CEA estimate implies that household income will increase four and a half times more than the cost of the tax cut.[28] In other words, it implies a corporate tax incidence of over 400 percent. This is well out of line of the mainstream consensus for the corporate tax incidence of around 20 percent.[29]

Similarly, the *Report* implausibly gives credit to the tax cuts for increasing average household income by $640 in 2018 alone. They theorize that employers decided to share their tax cut windfalls with their workers through bonuses and raises. More likely, wage gains this past year were driven by the economy starting to reach full employment, which requires employers to compete for workers and gives workers more confidence to ask for raises or switch jobs.

In the long run, the TCJA might have a small effect on wages, but that will be outweighed by the tax law's increased tax burden on middle- and working-class families in the long run. The TCJA permanently lowered the inflation adjustment for income tax rate brackets. This will result in people moving up in brackets because of inflation, not because they are earning more inflation-adjusted dollars, known as "bracket creep." By 2027, the Urban-Brookings Tax Policy Center (TPC) estimates that the TCJA will lead to lower after-tax incomes for the bottom 40 percent of households in the income distribution and no change in after-tax incomes to the next 40 percent.[30]

Income Inequality: Rather than working to address decades of increasing income inequality, the TCJA will exacerbate the problem. Even in the early years, the benefits to the wealthiest Americans are substantially larger than for others. TPC projects that for 2018, the change in after-tax income for the wealthiest fifth of Americans will be seven times larger than for the bottom fifth. When the temporary provisions expire, the distortions will be even worse. More than 99 percent of the benefits of the TCJA in 2027 will go to the top five percent of tax units.[31]

Figure 1-5



Private Investment: The primary mechanism by which the *Report* claims the TCJA increases growth and wages is through higher business investment. It is not clear that the tax cuts have led to a major investment boom to date. Private, nonresidential fixed investment grew at about an 8.4 percent rate in 2018, similar to the growth rate in 2014 and lower than in 2012 or 2011.[32]

Although this rate of investment growth reflects a small uptick from 2017, much or all of the boost may have been driven by fluctuations in global oil prices, rather than by U.S. tax policy. There is a strong relationship between crude oil prices and investment within the United States—when prices rise, more domestic oil fields become profitable to drill in, leading to firms investing in new equipment and structures on those fields. The Penn Wharton Budget Model estimates that if oil prices had not risen, business investment growth would have remained flat in 2018.[33]

Early evidence gives little reason to expect a wave of TCJA-driven investment in the near future. A survey of business economists found that 84 percent of their companies have not adjusted investment or hiring plans due to the new tax law.[34] As Chairman Powell recently told Congress, "[g]rowth in business investment seems to have slowed notably, and overall growth in the second quarter appears to have moderated. The slowdown in business fixed investment may reflect concerns about trade tensions and slower growth in the global economy. In addition, housing investment and manufacturing output declined in the first quarter and appeared to have decreased again in the second quarter."[35]

Stock Buybacks: Meanwhile, corporations announced more than $1 trillion in stock buybacks in 2018.[36] Although the new report portrays the boom in stock buybacks as part of the desired effect of the TCJA, CEA reports leading up to the bill had emphasized that companies would use repatriated earnings to make productive investments in the United States. None of the pre-TCJA reports mentioned share repurchases as a step in the process.[37]

While the money that goes to shareholders could eventually be reinvested in other companies, one of the main arguments in favor of the law had been that the U.S. worldwide tax system was a roadblock to companies bringing foreign profits back into the states to invest.[38] However, according to experts, the tax law did little to change the incentive for multinational companies to shift profits overseas.[39] Profits that are repatriated will most likely benefit shareholders but do little to boost investment. This was the ultimate outcome of the 2004 repatriation.[40]

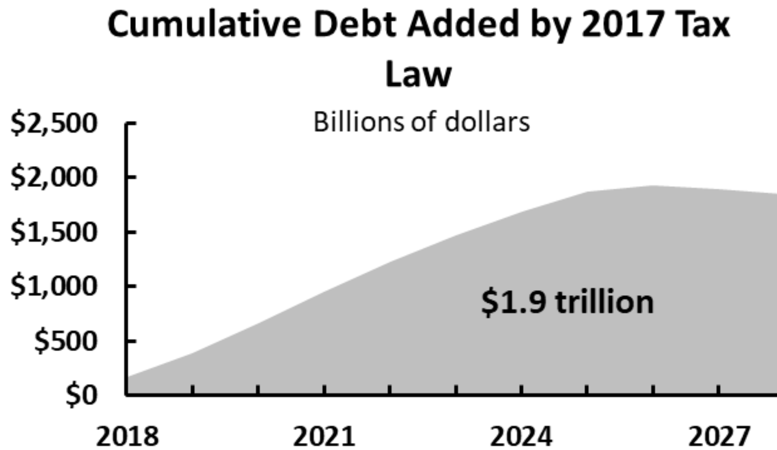
Public Investment: The tax law will also likely affect public investment at the state and local level. Part of the TCJA was to cap taxpayers' ability to deduct state and local taxes (SALT) paid from their federal income tax returns. In effect, this makes the taxes paid

to state and local governments more burdensome for taxpayers and puts pressure on lawmakers to cut taxes.[41] Since most states have limitations on deficit spending, this will often come with budget cuts or the inability to make new investments.[42]

The impact will vary from state to state and locality to locality, but the overall results should be very concerning. One-third of state budgets are spent on education—making school funding a likely casualty of this effect.[43] At a time when education is becoming ever more important for economic success, substantial cuts would likely result in worse economic outcomes for many children and college students. It could also inhibit investments in infrastructure, health care and other important areas that will affect economic outcomes and growth. This is especially concerning given that state and local government budgets were already hit hard by the Great Recession.

Debt: Most mainstream economists suggest that deficits should rise in economic downturns in order to stimulate growth, and then fall as the economy picks up. The TCJA turns this conventional wisdom around, adding stimulus spending at a time when the economy was growing and labor markets were thought to be approaching full employment. The cost of this stimulus is an additional $1.9 trillion in debt through 2028.[44] If companies and individuals can identify new loopholes in the hastily written law, the revenue loss could be even larger.

Figure 1-6



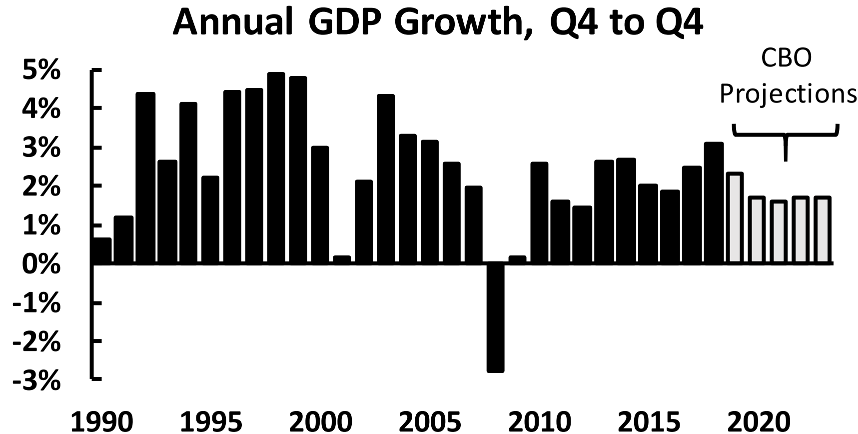
Mainstream economics posits that increased deficits can lead to higher interest rates and crowding out of private sector investment. While some economists are becoming more skeptical of the magnitude of crowding out effects in the modern economy, there are undoubtedly practical and political concerns about adding to the deficit during good economic times. Higher deficits can undermine the political will for growth-boosting investments in infrastructure, education and research. Already, some policymakers are decrying the higher deficits and demanding spending cuts to compensate, and the President has proposed hundreds of billions in cuts to Medicaid, Medicare and Social Security.[45] Further, higher deficits are associated with smaller stimulus responses to economic downturns, meaning that the TCJA may decrease the United States' ability to recover from future economic troubles.[46]

Growth: The TCJA came with a high price tag, but nonpartisan experts estimate the long-term growth effects to be small. Out of

eight models examined by the Tax Policy Center (TPC), six estimated that the economy would be less than one percent larger in 2027 because of the TCJA, and one estimated that the economy would be just about one percent larger. TPC itself estimates that the TCJA will result in an economy that is the same size as it would have otherwise been.[47]

GDP growth accelerated in 2018, likely driven by short-term stimulus from the tax cuts, rather than the long-term supply-side effects. CBO estimates that growth will fall in 2019 and again in 2020 before settling in around a long-term trend of 1.7 to 1.8 percent annual growth.[48]

Figure 1-7



Source: Bureau of Economic Analysis and Congressional Budget Office
Note: Grey bars represent CBO projections for future year-over-year growth rates

The presence of slack in the labor market helps explain why an increase in the deficit from the Tax Cuts and Jobs Act (TCJA) and 2018 bipartisan budget agreement was able to provide a temporary boost to growth. According to conventional economic models, higher government deficits at a time when the economy is below

potential leads to higher economic output. Traditionally, mainstream economists advocate stimulus immediately following a downturn—such as ARRA– rather than late in the cycle—such as the TCJA. The stimulus also comes after years of Republicans opposing other stimulus efforts and declaring that the deficit and debt were national emergencies.

The contents of stimulus spending are also important. Spending that increases the productive capacity of the economy, such as on infrastructure improvements, will have a long-term higher return on investment than tax cuts for favored special interest groups.

THE ECONOMIC EFFECTS OF AGGRESSIVE DEREGULATION

The *Report* gives part of the credit for higher growth in 2018 to the Trump Administration's deregulatory efforts. The research to back this up is weak. The *Report* relies more on unsupported economic theory than evidence. While the *Report* states that cost-benefit analyses are important, it ignores the fact that many of the regulations rolled back by the Administration passed rigorous cost-benefit analyses. Indeed, the Office of Management and Budget found that the major regulations implemented between 2006 and 2016 created between $287 and $911 billion in benefits (in 2015 dollars), compared with costs of between $78 and $115 billion.[49] The *Report* focuses more on the costs than the benefits and ignores the harms that these rollbacks of protections will have on workers, consumers, children, the environment and the economy.

Research Fails to Find a Link Between Broad Deregulation and Economic Growth

Studies on federal regulations have failed to find a link between federal regulation and broad economic trends. In one study,

economists looked across industries to see if there was a connection between the extent of federal regulation and firm dynamism and found no significant link.[50] An older study on air pollution regulations, meanwhile, found that the regulations did not substantially reduce employment.[51] A former EPA administrator has cautioned that employment effects are going to vary substantially from regulation to regulation and across varying industries.[52] This implies that applying findings from studies on occupational licensing research to actions such as eliminating safety protections for mine workers would not provide useful results.[53]

Smart regulations are necessary to correct for market failures in the complex modern economy. Broad and blind deregulatory efforts that are more driven by contempt for the party that was in charge when the rules were implemented, rather than by rigorous cost-benefit analyses, are unlikely to yield good results for American workers, families and the broader economy. It is also important to remember that many regulations are the result of experienced market failures and often devastating cases of fraud, abuse and dereliction of duty. Forgetting this for the sake of deregulation could result in repeating these mistakes.

Deregulation Results in Winners and Losers

Deregulatory advocates often focus mostly on the compliance costs that businesses incur from regulations. However, there are other stakeholders involved. Depending on the rule, the benefits of a regulation accrue to consumers, workers, investors and the broader economy and environment. For instance, in failing to defend the proposed rule changing the threshold for mandatory overtime, the Administration has left workers without $1.2 billion

in additional pay they would have received under the new guidelines each year.[54]

Another example of the Administration rolling back a rule projected to provide substantial benefits is the Clean Power Plan, which was projected to provide $34 billion to $54 billion in annual benefits by 2030, compared with $8.4 billion in costs.[55] The updated and weaker Affordable Clean Energy rule eliminates the carbon reduction mandates in the prior rule, thereby getting rid of most of the projected benefits of the regulation.[56] Under this new Trump rule, individuals living near power plants will lose out as they suffer from higher levels of pollution and worse health outcomes, and greater emissions will lead to higher levels of global warming, which will hurt economic growth. Coal power plants, meanwhile, will be the winners as there will be fewer requirements for them to reduce emissions.

The Department of Labor Fiduciary Rule provides an example of how consumers can benefit from smart regulations. The modern finance industry is complex, and it is often difficult for consumers to know whether their advisers are steering them toward the best options or toward those that come with the highest fees for the advisers. Conflicts of interest in retirement advice cost families $17 billion each year. The Fiduciary Rule would have required financial advisers to act in the best interest of their clients, helping consumers recoup these costs.[57] However, the Trump Administration put the rule on hold and then failed to defend it in court. Consumers are losing billions each year because of these actions.[58]

THE COST OF TRADE WARS

There are legitimate concerns that need to be addressed in global trade. Globalization has left many American workers with worse

job prospects and lower wages, without a strong enough safety net to help lift them back up.[59] Many countries engage in unfair trade practices. China entered global markets full steam after joining the World Trade Organization, but still engages in unfair trade practices that advantage Chinese companies over American and other competitors.[60]

However, rather than proposing investment in a national workforce development system or building a coalition of allies to pressure change in Chinese policies, the Administration has engaged in haphazard and counterproductive tariffs and threats; on-again, off-again negotiations; and undermined international institutions and relationships. The *Report* glosses over these actions understates their magnitude and fails to fully consider the harm that they are doing to the U.S. economy.

CBO estimates that the United States imposed new tariffs on 12 percent of goods imported into the country in 2018, and trading partners imposed tariffs on nine percent of goods exported by the United States. CBO projects that the result of this will be both lower GDP and lower American exports.[61] Two studies released early in 2019 found that in total, the cost of the U.S.-implemented tariffs was almost entirely borne by Americans, lowering total national income even after factoring in tariff revenue.[62]

The soybean industry shows how retaliatory tariffs have harmed American workers and businesses. After the first round of tariffs on Chinese goods, one of the ways China retaliated was instituting a 25 percent tariff on American soybean exports.[63] As China was the number one export market for American soybeans, this was devastating for farmers. Soybean exports to China fell by nearly three quarters from 2017 to 2018 and were down 98 percent in December 2018 relative to December 2017.[64] Even if a deal is reached soon, American soybean farmers will still face some

economic whiplash—the USDA projects that exports would not reach their previous highs for another seven years, and more than 900 million bushels of stockpiled soy from last season will continue to push prices down, hurting farmers.[65]

Beyond China, the Administration's targets have included close allies, like Canada and the European Union, stoking unprecedented levels of trade tension in modern times. It remains to be seen what the result of this turmoil will be, as negotiation deadlines continue to pass and be extended with no concrete results to show for them.

Uncertainty Weakens Investment

Beyond the actual actions taken, investors and businesses are uncertain of what direction the Administration is moving on trade policy, as senior level advisers give different indications in public from day to day and week to week.[66] Tweets from the President on tariffs have sent markets roiling, only to be walked back the next day by other officials.[67] One index tracking uncertainty over trade in major news publications found that trade uncertainty has more than doubled since the 2016 election.[68] Farmers and other agricultural producers have also been unsure of whether to commit to new investments in areas potentially affected by tariffs.[69]

A January 2019 survey of businesses uncertainty said that tariff hikes and trade tensions were projected to lower capital expenditures by $32.5 billion, including $22 billion in the manufacturing sector alone.[70] Further, some international investors may decide that their dollars are better invested elsewhere. Already, the United States has seen a drop in foreign direct investment flows into the United States. While there are many factors that influence these trends, uncertainty over

American trade and other policies likely influences many investors' and business's decisions.[71]

THE GOVERNMENT SHUTDOWN

Another source of uncertainty and unforced errors was the recent partial government shutdown, which CBO estimates will cost the economy at least $3 billion in lost economic activity.[72] The third shutdown of the Trump Administration, it lasted 35 days—longer than any previous shutdown.[73] The shutdown had direct economic impacts: workers did not get paid, important government services were halted and important economic data was not released. BEA estimated that the shutdown subtracted 0.1 percentage point from fourth-quarter growth and a 0.3 percentage point from real GDP growth in the first quarter.[74]

These measures focus on lost government productivity—the output lost because furloughed workers do not make up for lost hours. The cost could be larger once indirect effects such as delayed or canceled business investments and worsened agency backlogs are taken into account.

LONG-TERM CHALLENGES

There are several key factors slowing economic growth in the coming years and decades, factors that policymakers should be working to address. At a high-level, economic growth is a function of two factors: the number of hours worked and the productivity of those workers. To this extent, it is concerning that labor force growth and productivity growth have both been slowing in recent decades. Further, demographic shifts, rising income inequality and rising global temperatures present major challenges that require substantial policy responses.

Declining Labor Force Growth

Labor force participation peaked in the late 1990s and early 2000s at around 67 percent, and has since declined to a rate of about 63 percent as of June 2019.[75] CBO projects that the rate will continue to fall in the coming years, hitting 62.2 percent in 2023.[76] Much of this decline has been and will continue to be driven by the aging of the workforce. The number of Americans aged 65 or older has doubled in the last 50 years and is projected to increase by another third over the next decade.[77] While the labor force will continue to grow overall, retiring Baby Boomers will put downward pressure on that growth rate.

These trends are too large for policymakers to reverse, but federal policy has a place in mitigating the decline. For instance, paid leave and affordable child care can help attract more women to the labor force, bringing the United States back toward its former position of leading the globe in female labor force participation. Bipartisan criminal justice reform passed last year is a promising start toward getting more individuals out of the criminal justice system and into the workforce—but much work remains in this area, particularly at the state level. Similarly, bipartisan action to address the opioid crisis will help more Americans avoid or recover from addiction, allowing them to live longer, more productive lives—although more work remains to fully address the crisis.

Another major area where Congress can affect labor force growth trends is through immigration. Immigrants tend to have high rates of labor force participation, likely due to requirements associated with the immigration process.[78] As the growth of the native-born workforce declines, this becomes even more important. While immigration cannot completely make up for this decline, limiting the number of immigrants and refugees coming into the country

and working to kick out large numbers of people already educated and working in the United States is moving in the wrong direction. The *Report* is unfortunately silent on this important issue.

Low Productivity Growth

Productivity growth has been slower in recent years than in previous periods, a trend that is very concerning for future growth prospects.[79] The cause of the slowdown is not entirely clear, although economists have put forth potential explanations. Some economists project that the decline is temporary, with major productivity-boosting breakthroughs in areas like automation and artificial intelligence on the horizon. Others posit that people have discovered most of the low-hanging productivity-enhancing fruit, and that future gains will be harder to come by.[80] Rising market concentration, higher income inequality and aging demographics are all also plausibly linked to lower investment and productivity.[81]

Regardless of the cause, policymakers cannot sit idly by. As we have seen, the TCJA has done little to drive substantial private sector investments to date. Instead of waiting for the possibility that future investment materializes, Congress and the Administration should work toward advancing substantial new investments in infrastructure, education and federally funded research. Policymakers should also facilitate competitive markets where incumbents must innovate to maintain market share. Democrats have already put forth a number of policies initiatives that would work toward these goals in the 116th Congress. Advancing these initiatives would create an environment where innovation thrives, productivity increases and the economy grows.

Income Inequality

Income inequality has been on the rise for the past four decades. While the literature linking income inequality to economic growth is still emerging, many economists have already sounded the alarm that high levels of inequality can depress economic growth. A recent study found a strong link between income inequality and growth when also factoring in the level of economic mobility.[82] In countries with lower levels of economic mobility, income inequality is more likely to impact growth—a situation the study points to as occurring in the United States. Income inequality trends are explored more in the next chapter on *Economic Inequality*.

The Climate Crisis

Rising global temperatures are likely already affecting the economy, particularly through the rise in extreme weather events. As temperatures continue to rise, these effects will expand to more areas, industries and people. Agricultural yields will be hurt, labor productivity will fall, property values will decline and entire communities will be displaced. The longer policymakers take to act on climate change, the greater the economic threats will be. The impact that rising temperatures have on the economy is covered in more depth in the chapter on the *Climate Crisis*.

CONCLUSION

The economic assessment of the *Economic Report of the President* fails to acknowledge that current positive economic trends are a continuation of the momentum that the Trump Administration inherited from the Obama Administration. It cherry-picks facts to claim that the President has ushered in a new economic era, rather than acknowledging the reality that Trump is riding the wave of a

long economic recovery. It also presents overly rosy economic forecasts that are out of line with mainstream and nonpartisan consensus. Further, it neglects to reflect on the disastrous self-inflicted wounds caused by the President's trade war, the unnecessary government shutdown and ill-designed tax cuts that favor the wealthy and balloon the federal debt.

Although the U.S. economy is strong in many ways, structural challenges and disparities remain. The Administration glosses over these challenges and disparities in its *Report*. We need smart investments that address these issues and ensure that all Americans have the opportunity to succeed.