OPINION | COMMENTARY

America Is Competitive Again

The tax cuts of 2017 have boosted growth and job creation, just as the White House team intended.

By Gary D. Cohn

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President Trump with the newly signed Tax Cuts and Jobs Act, Dec. 22, 2017. **PHOTO:** MIKE THEILER/BLOOMBERG

How well is last year's tax-reform law working? It has been a year since President Trump signed the Tax Cuts and Jobs Act of 2017, the most important such legislation in 30 years. The TCJA slashed the corporate tax rate from 35% to 21%, finally allowing U.S. businesses to compete on a level playing field with the rest of the world. The law delivered relief to American families through tax cuts and vital reforms designed to create jobs and boost paychecks for lower- and middle-income workers. It raised the standard deduction to $24,000 for married couples, increased the child tax credit while expanding eligibility, and greatly simplified the filing process.

The anniversary of the tax law offers a moment to evaluate its initial impact. First, the top-line numbers. With an annualized economic growth rate of 3.3% during the first three quarters of 2018, the U.S. is on track to hit the highest calendar-year rate of growth in 13 years. It's easy to forget, but the prevailing wisdom when Mr. Trump took office was that 3% growth wasn't possible and we needed to settle for the "new normal" of 2%. An additional 1% in gross domestic product makes an enormous difference in the economic outlook, from employment to wage growth to paying down the deficit.

Equally important, businesses immediately shifted investment back to the U.S. In the first weeks after the TCJA became law, each day seemed to bring another company's announcement. All told, more than 500 companies have announced wage increases, bonuses, new hiring or enhanced benefits, helping more than six million employees around the country. An EY study released in March found 89% of surveyed executives planned to enhance worker compensation as a result of the tax law.

As of the third quarter of this year, real capital expenditures were up $180 billion from the fourth quarter of 2017. Furthermore, among independent businesses, real private nonresidential fixed investment is up by an annual rate of 16% in 2018, which would be the highest in any calendar year since 1993. Investment in intellectual property is up almost 10% annualized, the highest in any calendar year since 1999. And in 2018's first nine months, corporations brought back more than $571 billion from overseas, after repatriating only $128 billion in the same period last year.

The employment picture hasn't looked this good in half a century. The U.S. economy has added 2.1 million jobs this year, and unemployment is down to 3.7%—the lowest level since 1969. Job openings reached a record high in August 2018, and there are more openings than unemployed people looking for work.

As intended and predicted, this increase in job openings and lack of unemployed people forces employers to compete for workers by finally raising wages. Since the tax law passed, wages and salaries have risen by 3.1%, the biggest 12-month jump in a decade. Wages for low-income workers have been growing even faster, by more than 4%.

Since leaving the White House, my conversations with entrepreneurs and business leaders from a range of industries bear this out. Their biggest challenge is competing to hire people. They also express significant interest in investing in the new Opportunity Zones, which will drive even greater capital expenditures and job creation in some of America's most distressed communities.

The numbers tell a convincing story but an incomplete one. The latest National Association of Manufacturers outlook survey found "unprecedented levels of optimism, spurred by improvements in the global economy and, in particular, by pro-growth policies such as tax reform and regulatory relief." More Americans believe they can share in the nation's prosperity.

There are those who argue the tax law is bad for the economy because it decreases revenues, leading to an even bigger budget deficit. While I agree policy makers need to deal with the deficit, this criticism fails on two fronts. First, it doesn't consider that stimulating job and wage growth is the recipe for a broader tax base. The law achieves that by incentivizing investment upfront through 100% expensing of new plants and equipment for five years, encouraging businesses to grow and securing more sustainable revenue in the long run. Second, the U.S. doesn't have a revenue problem; it has a spending problem. Federal revenues are up slightly this year. Until the government can get its spending under control, the deficit will continue to grow.

“We need to make America competitive again,” I told President-elect Trump in December 2016. A lifelong Democrat, I had been invited to Trump Tower to give the newly elected Republican president my assessment of the U.S. economy. I believed the key to growth and job creation was to get rid of the onerous regulations and crushing tax burden that were in the way. I joined the Trump administration as director of the National Economic Council to help advance these crucial policy changes.

Two years later, it’s clear that the administration has achieved those goals. As we head into the New Year, it’s a great time to invest in America, to find a good job, and to plan for a better economic future. The tax law isn’t perfect. No legislation is. But it has been an enormous success.

Mr. Cohn was director of the National Economic Council, 2017-18.

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