No, Trump’s Tax Cut Isn’t Paying for Itself (at Least Not Yet)

By Jim Tankersley

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The Treasury Department released figures on Monday showing the federal budget deficit widened by 17 percent in the 2018 fiscal year, to $779 billion. That’s an unusual jump for a year in which unemployment hit a five-decade low and the economy experienced a significant economic expansion. But the increase demonstrates that the tax cuts President Trump signed into law late last year have reduced federal revenues considerably, even against the backdrop of a booming economy.

Some conservatives don’t see the rising deficit numbers that way. They note that the Treasury reported that federal revenues rose by 0.4 percent from the 2017 fiscal year to the 2018 fiscal year, and view that as a sign that the tax cuts are “paying for themselves,” as Republicans and Mr. Trump promised.

That’s not the case.

There are several ways to ask the question, “Are tax cuts paying for themselves?” Based on the data we have right now, they all arrive at the same answer: “No.”

Federal revenues are falling well short of projections — even with strong economic growth

The issue here is not whether the government spends too much money, or whether tax cuts have buttressed economic growth, or even whether it’s advisable to run such high deficits in flush economic times.

The issue instead is: Have the corporate and individual tax cuts that went into effect in January generated so much additional growth that tax revenues are as high, or higher, today than they would have been if the tax cuts never passed? That’s how all scorekeepers — be they independent congressional staff members or researchers from think tanks that lean liberal or conservative — assess the “pay for themselves” question.

One way to think about it is from the perspective of a small-business owner. Let’s say you run your own bakery. You sell bread for $4 a loaf. Today, you sold 90 loaves, for $360 in revenue. You expect that, because it’s a busier day at the bakery tomorrow, you’ll sell 100 loaves then, earning $400. But you’d like to sell even more than that, so you lower the price to $3 a loaf to encourage additional purchases.

Congratulations! You sell 125 loaves. Your revenue goes up, to $375. That's more than you brought in the day before. Your price cut, though, has not "paid for itself" — because you ended up bringing in less revenue than you would have otherwise.

In other words, you brought in more money than the day before. But it's less than you would have made if you hadn't cut the price.

That's what we saw in the 2018 fiscal year with the tax cuts. A few months before they passed, the Congressional Budget Office predicted the government would take in $3.53 trillion in revenues for the fiscal year. On Monday, the Treasury reported that revenue was actually $3.33 trillion for the year — $200 billion short, even though economic growth has outpaced the budget office's forecasts.

That's the equivalent of selling more loaves, but earning less money.

By several measures, post-tax-cut revenues have not grown at all

By the Treasury's numbers, total revenues grew 0.4 percent from the 2017 fiscal year to the 2018 fiscal year. That's weak, historically speaking, for an economy growing as fast as it is; in the 2015 fiscal year, when growth was comparable to what it is today, revenues grew 7.5 percent from the previous year.

The weak growth brought revenue as a share of gross domestic product down, something that typically happens in — or around — a recession, not deep into a robust expansion that the Fed has described as a "particularly bright" moment.

But revenue is definitely growing after the tax cuts, right?

Well, no.

The fiscal year runs from the start of October to the end of September. The tax cuts mostly took effect in January 2018. That means three months of the 2018 fiscal year included a period without the tax cuts in place. If you look only at the nine months after the cuts took effect, you'll see that revenue is ever so slightly down, year over year: From January through September 2017, revenues were $2.57 trillion. For the same period in 2018, they were $2.56 trillion. Which is to say, they're down by $10 billion, in a direct comparison after the tax cuts started. Personal tax receipts are up on their own, but corporate tax receipts are down by about a third from a year ago.

That overall drop looks worse when you consider inflation. A dollar today buys about 2 percent less than it did a year ago, according to the inflation index used by the Federal Reserve to set monetary policy. So the government brought in slightly less money year over year, and that money was worth less than the equivalent amount a year ago, which means it buys fewer meals for troops, materials for highway construction or any of the other goods and services that tax dollars go toward.

This is exactly what most forecasters predicted

When the tax law passed, members of Congress had all sorts of evidence suggesting it would accelerate America's growing budget deficits. The Joint Committee on Taxation and the Tax Policy Center predicted that the new law would add at least $1 trillion to deficits over the next 10 years, even after accounting for additional economic growth. The Penn Wharton Budget Model predicted it would add $2 trillion. The most optimistic mainstream model that analyzed all the provisions of the new law, from the Tax Foundation, predicted it would add about $450 billion to the deficit after accounting for additional growth.

Republicans dismissed those warnings. Treasury Secretary Steven Mnuchin said he expected the new law to more than pay for itself — it would help to reduce future deficits. It's possible that optimism could turn out to be right, but only if the tax cuts unleash a sustained boom in productivity and economic growth, and with them, much higher revenues than we saw this past fiscal year. In other words, we're going to need to make — and sell — a lot more loaves.