*Budget Deficit Jumps Nearly 17% in 2018*

*The New York Times* - By [Jim Tankersley](https://www.nytimes.com/by/jim-tankersley) - Oct. 15, 2018

<https://www.nytimes.com/2018/10/15/us/politics/federal-deficit-2018-trump-tax-cuts.html>

WASHINGTON — The federal budget deficit swelled to $779 billion in fiscal year 2018, the Treasury Department said on Monday, driven in large part by a sharp decline in corporate tax revenues after the Trump tax cuts took effect.

The deficit rose nearly 17 percent year over year, from $666 billion in 2017. It is now on pace to top $1 trillion a year before the next presidential election, according to forecasts from the Trump administration and outside analysts. The deficit for the 2018 fiscal year, which ended Sept. 30, was the largest since 2012, when the economy and federal revenues were still recovering from the depths of the recession.

Administration officials attributed the deficit’s rise to greater federal spending, including the military and domestic budget increases that President Trump approved this year, not the $1.5 trillion tax cut.

“President Trump prioritized making a significant investment in America’s military after years of reductions in military spending undermined our preparedness and national security,” Treasury Secretary Steven Mnuchin said in a statement. “Going forward, the president’s economic policies that have stimulated strong economic growth, combined with proposals to cut wasteful spending, will lead America toward a sustainable financial path.”

But the numbers released by Mr. Mnuchin’s department suggest falling revenues were a far larger contributor to the rising deficit than higher spending. Federal outlays increased for the fiscal year, but, because the economy grew at a faster pace than outlays did the previous year, they fell as a share of the economy, to 20.3 percent from 20.7 percent.

Federal revenues rose by 0.4 percent from fiscal year 2017. That was a slowdown from previous years. Revenues rose by 1.5 percent between fiscal years 2016 and 2017. They rose by 0.5 percent between 2015 and 2016, when economic growth was considerably slower than it has been over the last year. Between 2014 and 2015, they rose by 7.5 percent.

As a share of the economy, revenues fell to 16.5 percent in fiscal year 2018, from 17.2 percent the year before. Revenues are now nearly a percentage point lower than their average for the last 40 years, the Treasury Department said in its news release.

Personal income tax collections rose slightly over the past fiscal year, the Treasury data show, though in September they were lower than they were a year ago. The big revenue drop came on the business side. [Corporate tax revenues have fallen](https://www.nytimes.com/2018/07/25/business/trump-corporate-tax-cut-deficit.html?module=inline) by a third from a comparable period a year ago, a direct consequence of the tax law signed last year, which reduced the top corporate rate to 21 percent from 35 percent.

For the full 2018 fiscal year, corporate tax receipts were nearly $205 billion. That figure is a drop from $297 billion in fiscal year 2017.

The 2018 numbers do not reflect a full year of effects from the Trump tax cuts, which also included cuts for individuals and owners of so-called pass-through corporations. Most of the new law’s provisions took effect in January.

Many Republicans, including Mr. Mnuchin, said during last year’s debate over tax policy that the proposed cuts would pay for themselves by producing faster economic growth and correspondingly higher federal revenues. Outside analysts disagreed. The Joint Committee on Taxation, the official tax scorekeeper of Congress, projected that the law would reduce revenues by $1 trillion, even when accounting for additional growth.

One area of increased revenue came from Mr. Trump’s tariffs, which he has imposed on foreign steel and aluminum and $250 billion worth of Chinese imports. While the tariffs have not begun to generate enough revenue to help pay down the national debt, [as Mr. Trump has promised](https://www.nytimes.com/2018/08/07/business/no-tariffs-arent-going-to-pay-down-the-national-debt.html?module=inline), they brought in about $41.3 billion in 2018. That was up from about $34.6 billion in 2017, an increase of nearly 20 percent.

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

Federal revenues rose slightly in the 2018 fiscal year. But that doesn’t mean the $1.5 trillion tax cut is bringing in more revenue than it’s losing.

*New York Times* - **By** [**Jim Tankersley**](https://www.nytimes.com/by/jim-tankersley) **-** Oct. 17, 2018

<https://www.nytimes.com/2018/10/17/business/trump-tax-cuts-revenue.html>

The Treasury Department [released figures on Monday](https://www.nytimes.com/2018/10/15/us/politics/federal-deficit-2018-trump-tax-cuts.html?dlbk=&module=inline) 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](https://www.cbo.gov/sites/default/files/recurringdata/51118-2017-06-budgetprojections.xlsx) 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](https://www.nytimes.com/2018/09/26/us/politics/federal-reserve-raises-interest-rates.html?module=inline).

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](https://www.nytimes.com/2018/07/25/business/trump-corporate-tax-cut-deficit.html?module=inline) 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](http://budgetmodel.wharton.upenn.edu/issues/2017/12/18/the-tax-cuts-and-jobs-act-reported-by-conference-committee-121517-preliminary-static-and-dynamic-effects-on-the-budget-and-the-economy) 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](https://taxfoundation.org/final-tax-cuts-and-jobs-act-details-analysis/).

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.

**'It's Not a Republican Problem.' Mitch McConnell Blames Entitlements for Rising U.S. Deficits**

[**Bloomberg**](http://fortune.com/author/bloomberg/) - October 16, 2018

<http://fortune.com/2018/10/16/mitch-mcconnell-us-budget-deficit/>

Senate Majority Leader Mitch McConnell on Tuesday blamed rising federal deficits and debt on a bipartisan unwillingness to contain spending on Medicare, Medicaid and Social Security, and said he sees little chance of a major deficit reduction deal while Republicans control Congress and the White House.

“It’s disappointing but it’s not a Republican problem,” McConnell said in an interview with Bloomberg News when asked about the rising deficits and debt. “It’s a bipartisan problem: Unwillingness to address the real drivers of the debt by doing anything to adjust those programs to the demographics of America in the future.”

McConnell’s remarks came a day after the Treasury Department said the [U.S. budget deficit grew to $779 billion](http://fortune.com/2018/10/16/2018-federal-deficit-highest-since-2012/) in Donald Trump’s first full fiscal year as president, the result of the GOP’s tax cuts, bipartisan spending increases and rising interest payments on the national debt. That’s a 77 percent increase from the $439 billion deficit in fiscal 2015, when McConnell became majority leader.

McConnell said it would be “very difficult to do entitlement reform, and we’re talking about Medicare, Social Security and Medicaid,” with one party in charge of Congress and the White House.

“I think it’s pretty safe to say that entitlement changes, which is the real driver of the debt by any objective standard, may well be difficult if not impossible to achieve when you have unified government,” McConnell said.

Politically Unpopular

Shrinking those popular programs — either by reducing benefits or raising the retirement age — without a bipartisan deal would risk a political backlash in the next election. Trump, during his campaign, promised he wouldn’t cut Social Security, Medicare or Medicaid, even though his budget proposals have included trims to all three programs.

McConnell said he had many conversations on the issue with former President Barack Obama, a Democrat.

“He was a very smart guy, understood exactly what the problem was, understood divided government was the time to do it, but didn’t want to, because it was not part of his agenda,” McConnell said.

“I think it would be safe to say that the single biggest disappointment of my time in Congress has been our failure to address the entitlement issue, and it’s a shame, because now the Democrats are promising Medicare for all,” he said. “I mean, my gosh, we can’t sustain the Medicare we have at the rate we’re going and that’s the height of irresponsibility.”

Divided Government

McConnell said the last major deal to overhaul entitlements occurred in the Reagan administration, when a Social Security package including a raise in the retirement age passed with divided government.

McConnell said he was the GOP Senate whip in 2005 when President George W. Bush attempted a Social Security overhaul and couldn’t find any Democratic supporters.

“Their view was, you want to fix Social Security, you’ve got the presidency, you’ve got the White House, you’ve got the Senate, you go right ahead,” McConnell said. The effort collapsed.

The Office of Management and Budget has projected a deficit in the coming year of $1.085 trillion despite a healthy economy. And the Congressional Budget Office has forecast a return to trillion-dollar deficits by fiscal 2020.

During Trump’s presidency, Democrats and Republicans agreed to a sweeping deal to increase discretionary spending on defense and domestic programs, while Trump’s efforts to shrink spending on Obamacare mostly fell flat.

Republicans also passed a 2017 tax overhaul projected to add more than $1 trillion to the debt over a decade after leaders gave up on creating a plan that wouldn’t increase the debt under the Senate’s scoring rules. However, McConnell, like many Republicans, has said growth will more than make up for the lost revenue.

House Minority Leader Nancy Pelosi of California reacted to McConnell’s comments Tuesday by saying the rising deficit is a direct result of the GOP tax cut enacted in December 2017.

“In budget after budget, congressional Republicans have exposed their cynical agenda: give massive, unpaid-for handouts to further enrich big corporations shipping jobs overseas and the wealthiest 1 percent, and stick seniors, children and families with the bill,” Pelosi said in a statement. “Under the GOP’s twisted agenda, we can afford tax cuts for billionaires, but not the benefits our seniors have earned.”