# Federal Deficit Up 16 Percent Following Tax Reform

In the first nine months of the present fiscal year (from October 2017 through June 2018), total revenues (gross receipts) to the federal government were $2.54 trillion, while total government spending was $3.15 trillion, leaving a gap — a deficit — of $607 billion. That's 16-percent higher than it was at the same time a year ago.

But when just the first six months of 2018 are considered (Trump's tax reform was effective January 1 and began to be felt by the government in February), revenues from personal income taxes rose by $76 billion compared to a year earlier, a nine-percent jump. When corporate tax revenues over the same period are considered, total gross receipts to the government were up $31 billion, a rounding error compared to total revenues.

Some were overjoyed. *Investor's Business Daily* editorialized "Is Trump Tax Cut Paying for Itself?" CNS News was less ebullient: "Feds Collect Record Individual Income Taxes Through June; Still Run $607B Deficit."

In April, the Congressional Budget Office, running its receipts and expenses computer model, projected that annual federal deficits will move from the present $600 billion deficit to over $1 trillion no later than 2020, two years from now.

What's the true picture here? Can Trump's tax cuts pay for themselves? Or are the Democrats' claims that they will "bust a hole" in the federal budget in the out years valid?

Part of the answer must be supply-side economic theory, which, simply stated, concludes that lower tax rates will generate higher tax revenues. The Laffer Curve is a simple graph with complex overtones: just how much lower? How does one know in advance? And, fundamentally, is the whole purpose of juicing the economy just to pay the government's bills?

Historically, going back to 1950, the gross receipts by the federal government have averaged just under 17 percent of the country's gross domestic output of goods and services. In other words, one-sixth of the country's economic output is siphoned off (through various taxes) to run the government and pay its bills. Only once since 1950 did that percentage approach 20 percent, and it touched a low of 14 percent during the Great Recession in 2009.

If the economy grows at three percent a year (the CBO's model shows 1.9-percent annual growth into the future), some interesting things happen: the economy grows to $28 trillion in 2028, throwing off some $4.8 trillion in gross receipts. Compare that to government spending of $3.1 trillion today, and one can see some light at the end of the deficit tunnel.

A persuasive case can be made that the CBO's model is too conservative, that it doesn't take into account the impact of repatriation ($350 billion of the estimated $2.9 trillion in profits held overseas by American companies has already been repatriated in the first three months of this year). Another persuasive case can be made by assuming that the present "trade wars" turn into "trade deals," removing some/many/most of the tariffs currently being applied to many American-made products being sold overseas. This would increase demand for those products, further stoking an economy that continues to confound forecasters with its remarkable performance.

But — isn't there always a but? — as the editors at *Investor's Business Daily* noted, "Bringing in more tax revenues doesn't help if spending goes up even faster. And that has, unfortunately, been the case, as the GOP-controlled Congress has gone on a spending spree. Look at it this way. [Total] tax revenues are up by $31 billion so far this fiscal year compared to last year. But spending is up $115 billion."

On the other hand, if government spending can somehow be held below the economy's growth rate, deficits narrow and eventually disappear. Decreasing, and eventually eliminating, unconstitutional federal programs would cut spending down to a more-than-manageable level.

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