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# President Trump went on a media tour boasting about the economic effects of his tax cut. If only the real data backed him up

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MINNPOST

# President Trump went on a media tour boasting about the economic effects of his tax cut. If only the real data backed him up

By Louis D. Johnston | 07/03/18


REUTERS/Kevin Lamarque

According to the White House website, "The economy has come roaring back to life under President Trump." This might be true on Bizarro World, but it's not true here on Earth.

In 1960, DC Comics introduced Bizarro World, a planet where everything was the opposite of our world. Superman's powers include, for example, heat vision and freeze breath while Bizarro Superman has freeze vision and flame breath. Bizarro versions of Lois Lane and Jimmy Olsen all live on Bizarro World, which is itself a cube instead of a sphere.

President Trump and his economic policy team inhabit a Bizarro World of upside down economic data and are trying to convince us to join them there. Let's visit their inverted world and compare the happenings there with those on Earth.

This past week, the Trump Administration celebrated the six month anniversary of the Tax Cuts and Jobs Act of 2017. To honor this event, Fox Business anchor Maria Bartiromo interviewed a variety of

Trump Administration officials responsible for economic policy, including President Trump himself and Larry Kudlow, director of the National Economic Council.



During the interviews, President Trump and Kudlow presented a number of assertions about the effects of the tax law on the US economy. I will focus on two of them: that the iron and steel industry is booming, and that the federal budget deficit is shrinking in part due to increases in tax revenues. We can check their contentions using data from FRED, the Federal Reserve Bank of St. Louis's economic database.

## Iron, steel and aluminum

President Trump addressed a topic important to Minnesota's economy when he spoke with Fox's Bartiromo. He said, "If you look at steel and aluminum, we practically built a new industry in a period of 4 or 5 months." If this is true, these effects should show up in the data on the steel and aluminum industries.

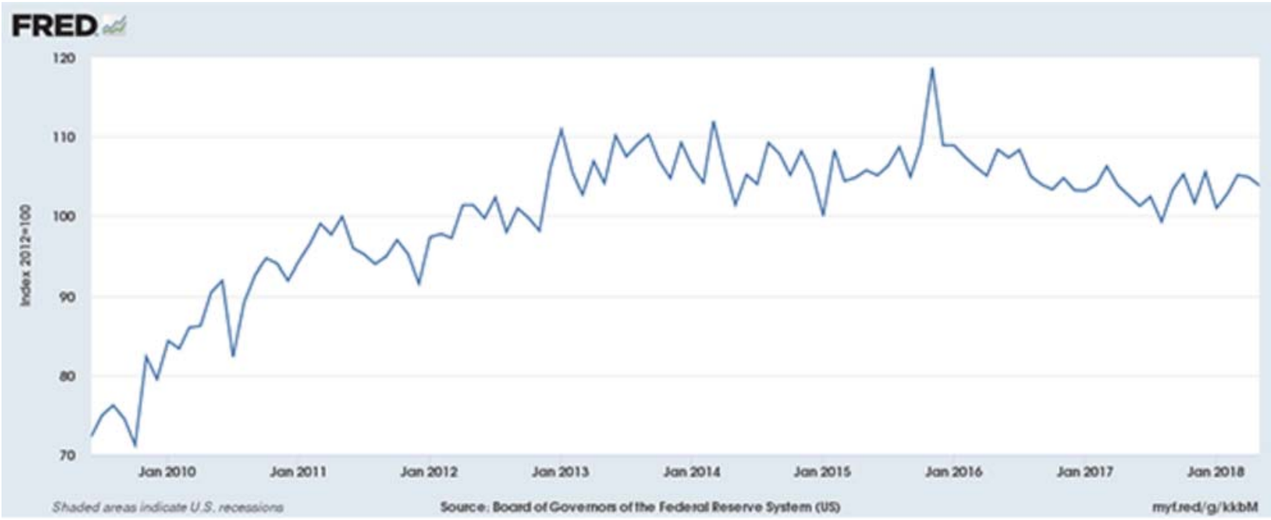
The graph below shows data on raw steel production from the June 2009 (when the last recession officially ended) until the April 2018 (the last date for which the data are available.) I will use this same time scale for all of the graphs that follow.

**Raw steel production, June 2009 to April 2018**


Raw steel output definitely had been increasing but production actually fell from March to April, so the hyperbole about "a new industry" is not warranted. Overall, production continued to increase at about the same rate over the long term as it has since early 2016.

A new aluminum industry does not appear in the numbers either. The figure below shows aluminum production from June 2009 to May 2018:

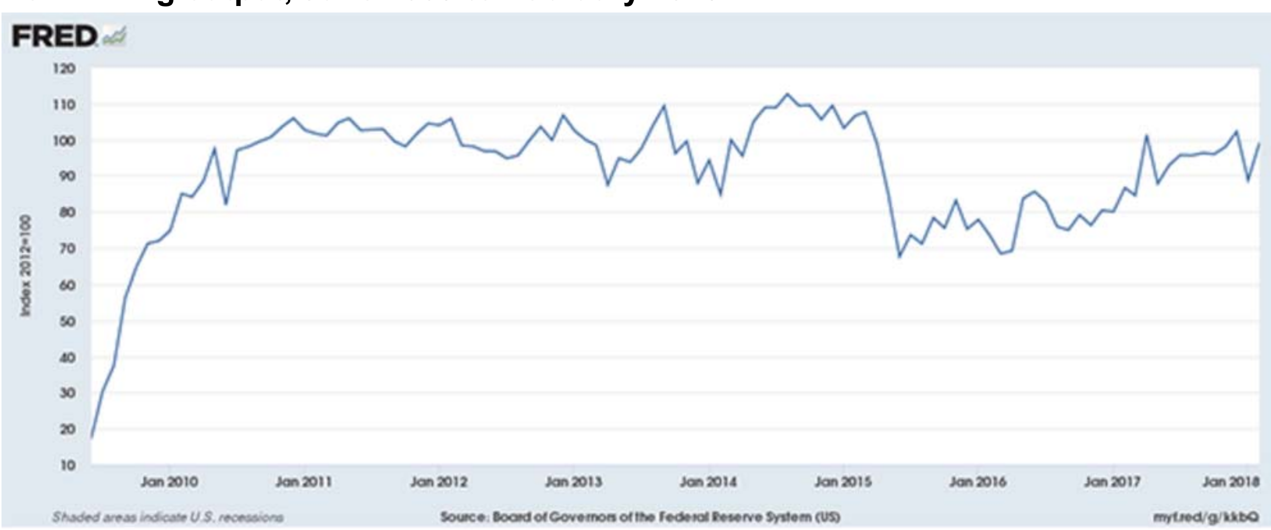
**Aluminum production, June 2009 to May 2018**




Aluminum production bounced around the same level over the past two years, and I see no discernable break in the pattern since the tax cut was enacted.

Minnesota is not a big steel or aluminum manufacturer but is a large producer of iron ore. Perhaps the new industry appears in those data? No, it does not. First, let's look at national iron ore production from June 2009 to April 2018:

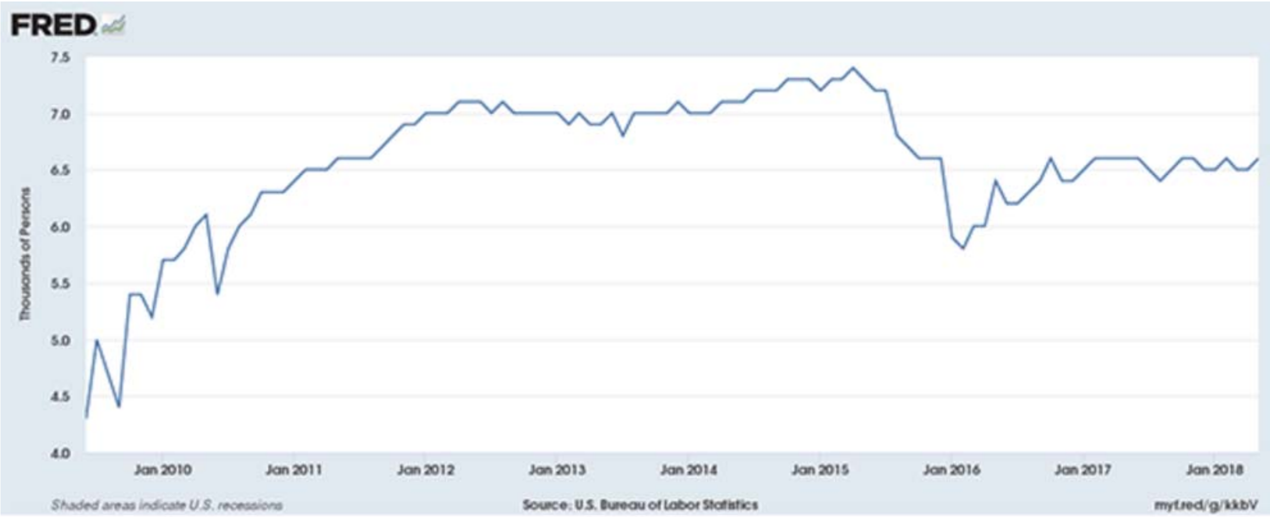
**Iron mining output, June 2009 to February 2018**




Production fell dramatically in early 2015 and gradually recovered over the past three years, reaching its 2012 level over the past few months. There's been no dramatic recovery in mining output, just a slow trend upward since 2015 with frequent fluctuations up and down.

Furthermore, mining employment has not changed dramatically since the December's tax cut. Here are the figures for mining and logging employment in Minnesota (FRED does not separate out mining and logging separately, but mining is consistently eighty percent of this number):

**Mining and logging employment, June 2009 to February 2018**




Mining and logging employment have remained at about 6,500 workers since in October 2016. There's been no discernable effect on mining employment caused by the tax bill.

## Tax revenue and budget deficits

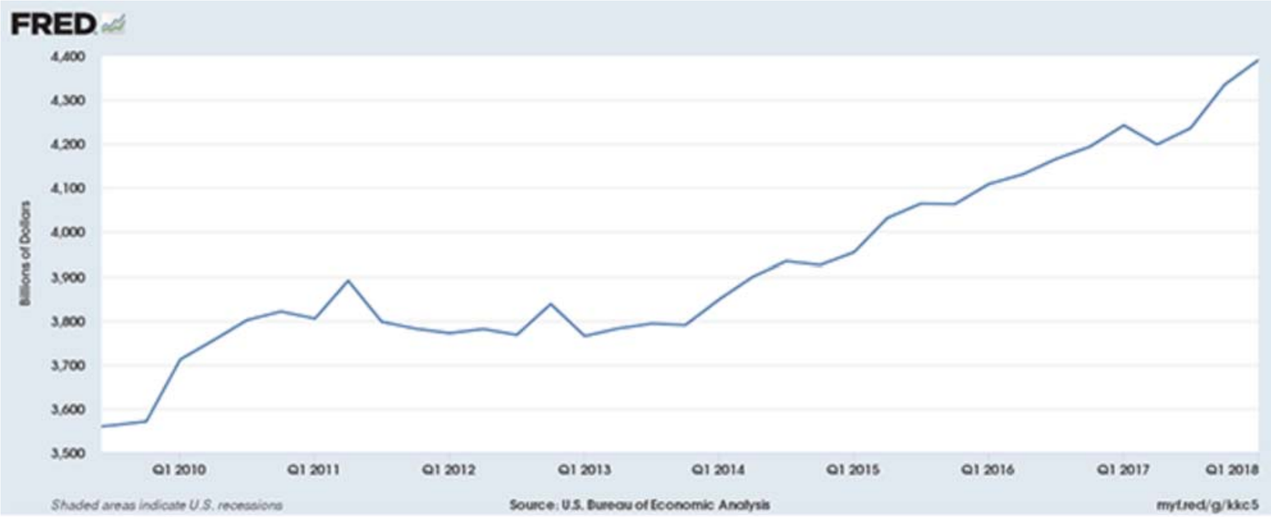
According to Mr. Kudlow, the American economy is "throwing off enormous amounts of new tax revenue." Further, "the deficit...is coming down, and it's coming down rapidly." This would be good news if either of these statements were true, but the data support neither of them.

**Federal government tax receipts, 3rd quarter 2009 to 1st quarter 2018**


First, tax revenues were rising before the tax law passed in December, but at a slower rate than the period 2009 to 2016, and tax receipts fell during the first quarter of 2018. Altogether, tax receipts are roughly where they were in 2014 and no additional revenue is flowing into the Treasury.

Second, deficits could be falling if spending decreases at a faster rate than tax revenues. That isn't what the data show:

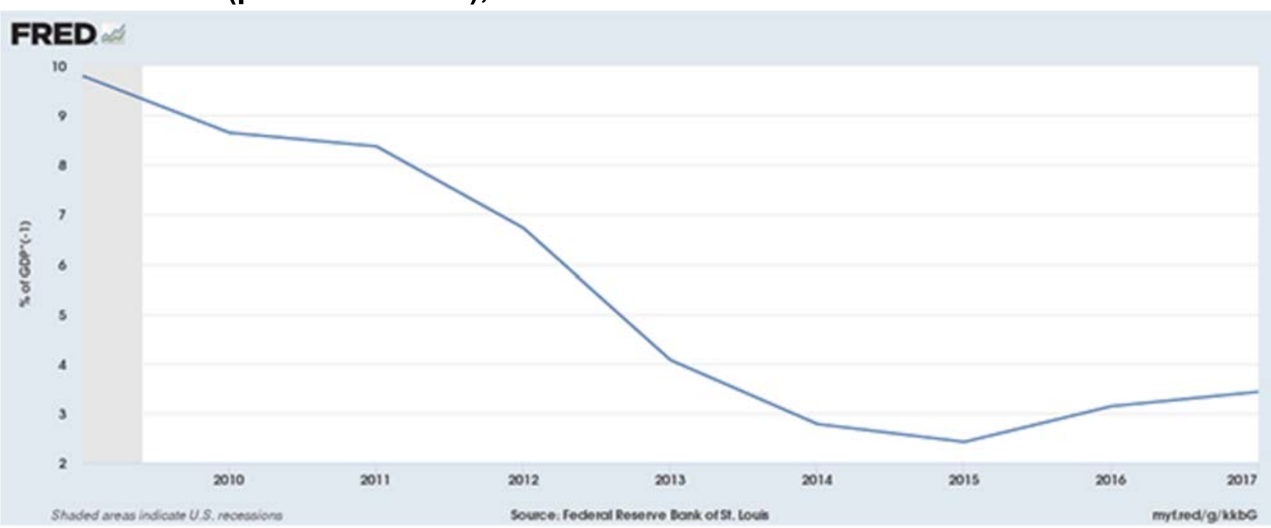
**Federal government expenditures, 3rd quarter 2009 to 1st quarter 2018**




Spending fell in the first quarter of 2017 but then resumed its previous trend for the rest of 2017 and into 2018.

Third, given that tax revenues are falling and spending is rising, the federal budget deficit continues to grow. Here is the most optimistic reading on the data:

**Federal deficit (percent of GDP), 2009 to 2017**




This graph takes the federal budget deficit and compares it to GDP on an annual basis from 2009 to 2017. The deficit was almost ten percent of GDP in 2009 and fell to about 2.5 percent of GDP in 2015. It's been growing since then and reached 3.4 percent of GDP in 2017. In other words, the deficit is not coming down, either slowly or rapidly, it is expanding.

## Living on Earth

According to the White House website, "The economy has come roaring back to life under President Trump." This might be true on Bizarro World, but it's not true here on Earth. The economy as a whole, along with sectors such as iron and steel, continue to grow at the same rates they did before the Tax Cuts and Jobs Act of 2017. Budget deficits continue to grow driven by increasing military spending and falling tax revenues. This is the opposite of what President Trump and his advisors are telling us.

It is too early to evaluate the long-run economic effects of December's tax and spending changes. It may be that they will have the effects on growth, industries, and budget deficits that their backers assert. However, if we are going to debate potential policies and evaluate recently enacted plans we cannot travel to Bizarro World for our statistics. Rather, we must stick to the data available here on Earth. While it's understandable that our leaders want to promote their policies, it's important that they not present inaccurate data and hyperbolic claims.

**ABOUT THE AUTHOR:**

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