Federal Revenue Forecasting

FTA Conference
Portland, Maine
September 16, 2008

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Why is Revenue Forecasting So Important?

• The Budget Resolution

• Estimating the effects of policy changes
Forecasting GDP

• Use of econometric models

• Role of identities

• Business cycles and potential GDP

Income Side of NIPA

• “Forecasting” the statistical discrepancy

• Labor’s share
  – Wages, payroll taxes, and fringe benefits
  – Proprietors’ income

• Capital’s share
  – Income from abroad, depreciation, interest payments, proprietors’ capital income, rents and royalties
  – Corporate profits: Economic and taxable
Revenues

- Individual income tax revenues
  - Importance of the distribution of income
  - Importance of the hyper-rich

- Capital Gains
  - Estimating the effects of new legislation
  - Regressing to the mean

- Economic versus technical errors
Ten-year forecasts

- Accuracy
- How should they be used?

The Serial Correlation Problem

- Evidence
- Why does it occur?
- Is there room for improvement?
  - Quality of data
Politics of Forecasting

• Typical optimistic bias

• Pessimism in the Bush Administration

Living with Uncertainty

• Explaining the quality of forecasts to the Congress and the media

• The role of transparency in budget preparation