

Federal Revenue Forecasting

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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

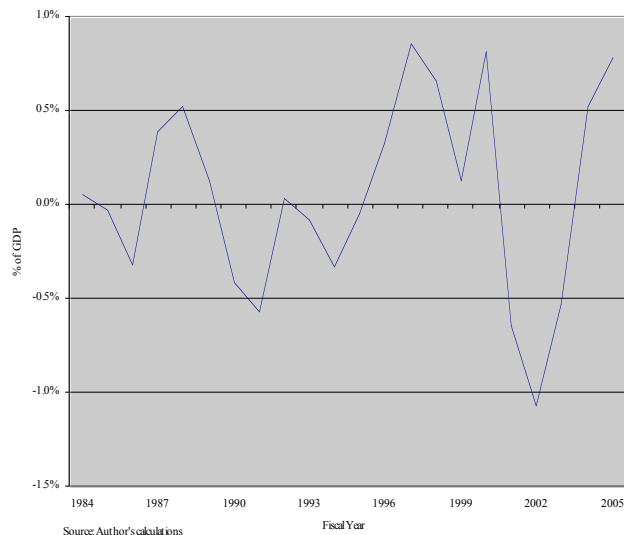
Income Side of NIPA

- “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

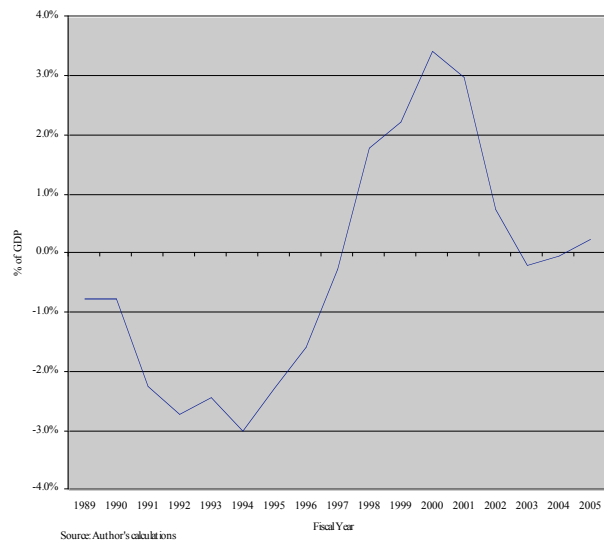
Revisions as a Percent of GDP, Current Year Projections, 1984-2005



Revisions as a Percent of GDP, One-Year Projections, 1984-2005



Revisions as a Percent of GDP, Five-Year Projections, 1989-2005



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