July 21, 2010

WSJ: ***Washington's Tax Oracles and Revenue Estimates***
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Wall Street Journal editorial, Washington's Tax Oracles: How to Think About Revenue Estimates:

Reality Check I

Total federal revenue, forecast and actual, in billions

	Forecast*	Actual	Underestimate
2003	$1,770	$1,782	$12
2004	1,825	1,880	55
2005	2,064	2,153	89
2006	2,276	2,407	131
2007	2,421	2,568	147
Total			434

The director of the Joint Committee on Taxation, Thomas Barthold, takes us to task in a nearby letter for exaggerating the revenue impact and economic benefits of the investment tax cuts of 2003. (See The Obama Tax Trap, July 2.) This is a debate we're delighted to have, and Members of Congress should want to have it too if they ever want to cut taxes again.

Because Mr. Barthold and his revenue oracles are among the most powerful people in Washington on tax policy, it's worth reviewing whether Joint Tax estimates are accurate. This is especially important now, because President Obama and Democrats in Congress want to allow the 2003 tax cuts to expire on January 1 for individuals earning more than $200,000. The JCT calculates that increasing the tax rates on capital gains, dividends and personal income will raise nearly $100 billion a year.

Mr. Barthold scolds us for saying the JCT assumes "no" change in economic behavior in estimating future revenues from tax rate changes, and he has us there. We should have used "little" instead of "no." On capital gains, for example, Joint Tax did change its methodology a few years back to take into account that more people will sell stocks when the tax rate falls. Here and there, it takes account of other narrow behavioral effects of tax changes.

Reality Check II

Capital gains revenue, forecast and actual, in billions

	Forecast*	Actual	Underestimate
2003	$42	$51	9
2004	46	73	27
2005	52	102	50
2006	57	117	60
2007	62	137	75
Total	259	480	221

But Mr. Barthold is also giving his gnomes far too much credit for dynamic scoring, and thinking. What they don't do is assume much if any macroeconomic effect from lower tax rates, and they often underestimate the real world behavioral responses by businesses, investors and workers. Consider a few examples: ...

Estimating future federal tax revenues is an inexact science to be sure. Our complaint is that Joint Tax typically overestimates the revenue gains from raising tax rates, while overestimating the revenue losses from tax rate cuts. This leads to a policy bias in favor of higher tax rates, which is precisely what liberal Democrats wanted when they created the Joint Tax Committee. One of the GOP's biggest mistakes the last time it controlled Congress was not doing more to take intellectual control over both Joint Tax and CBO.

Joint Tax now says that rescinding the Bush investment tax cuts will raise about $500 billion in revenue over the next five years. So on January 1 we will enact one of the largest tax increases in history, coming out of one of the deepest recessions in a century, because computer models that we know are wrong are telling Congress that this will raise far more revenue than the increases will raise in reality.

If Members of Congress are going to buy this, they should simply cut out the 535 middlemen and let Mr. Barthold write the tax laws.