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The Rise And Fall Of U.S. Tax Receipts

The shocking U.S. fiscal deterioration largely reflects a collapse in tax receipts and a return to earlier highs in the tax share of GDP is unlikely.

The profile of U.S. federal taxes as a percent of GDP looks like the tech stock bubble. Federal coffers benefited from higher capital gains receipts and taxes on inflated IT-related incomes and benefits. At the time, the Congressional Budget Office (CBO) puzzled over the rise in the tax share of GDP, and assumed only a gradual decline would develop over time. However, receipts subsequently plunged. Tax cuts and recession are largely to blame, but lower capital gains receipts also have had an impact. Going forward, the CBO assumes only a gradual recovery in the tax share.

