Remarks Related to "Fiscal Uncertainty and How to Deal with It"

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Sources

C. Manski, *Public Policy in an Uncertain World*, Harvard University Press, 2013.

C. Manski, "Communicating Uncertainty in Official Economic Statistics: An Appraisal Fifty Years after Morgenstern," *Journal of Economic Literature*, 2015.

Broad Themes of my Work

Society should face up to the uncertainties that attend policy formation.

The current practice of policy analysis hides uncertainty.

Untenable assumptions are used to make exact predictions of policy outcomes.

Credible policy analysis would explicitly express the limits to knowledge.

I study how policy makers can reasonably make decisions in an uncertain world.

Communicating Uncertainty in Official Economic Statistics

Federal statistical agencies report official economic statistics as point estimates.

Prominent examples include the employment, household income, and GDP statistics reported by the BLS, Census, and BEA.

News releases typically present estimates with little mention of error.

Technical publications verbally acknowledge that estimates are subject to sampling and nonsampling error.

However, they do not measure the magnitudes of nonsampling errors.

Reporting official statistics as point estimates manifests the tendency of policy analysts to project *incredible certitude*.

Agencies do not justify the ways that they produce point estimates.

These include

(a) extrapolation of trends to form advance estimates.

(b) imputation of missing data in sample surveys.

(c) seasonally adjustment of statistics.

Agencies could use established principles to report sampling error in statistics based on survey data.

It is more challenging to measure nonsampling error.

Yet good-faith efforts would be more informative than reporting official statistics as if they are truths.

Why is it important to communicate uncertainty?

Governments and private entities use official statistics when making decisions.

The quality of decisions may suffer if decision makers incorrectly believe the statistics to be accurate or if they incorrectly conjecture error magnitudes.

Agency communication of uncertainty would enable decision makers to better understand the information actually available regarding key economic variables.

CBO Scoring of Legislation

The Congressional Budget Act of 1974 has been interpreted as mandating the CBO to provide point predictions (*scores*) of the budgetary impact of legislation.

CBO scores are conveyed in letters to leaders of Congress.

They are not accompanied by measures of uncertainty.

Example: The Patient Protection and Affordable Care Act of 2010

In March 2010 the CBO scored the combined consequences of the Patient Protection and Affordable Care Act and the Reconciliation Act of 2010.

Director Elmendorf wrote to Speaker Pelosi:

"CBO and JCT estimate that enacting both pieces of legislation . . . . would produce a net reduction of changes in federal deficits of $138 billion over the 2010–2019 period as a result of changes in direct spending and revenue."

Interval Scoring

The CBO has established an admirable reputation for impartiality.

Perhaps it is best to leave well enough alone and have the CBO express certitude when it scores legislation, even if the certitude is not credible.

I worry that the social contract to accept CBO scores will eventually break down.

I think it better to transparently communicate uncertainty in scoring than to have the nation conclude that the emperor has no clothes.

A simple approach would be to provide interval forecasts.

The CBO could produce two scores for a bill (low and high) and report both.

If the CBO must provide a point prediction for accounting purposes, it can use a convention to locate the point within the interval forecast.

Can Congress Cope with Uncertainty?

I have received disparate reactions when I have suggested interval scoring.

Academics tend to react positively. Persons with experience in Washington tend to be skeptical.

Some assert that members of Congress are psychologically or cognitively unable to deal with uncertainty.

Some assert that Congressional decision making is a noncooperative game in which expression of uncertainty may yield inferior outcomes.

Empirical and Normative Questions for Policy Research

How do users of official statistics and CBO scores interpret them?

How would transparent communication of uncertainty affect policymaking?

What constitutes normatively reasonable fiscal policy in an uncertain world?