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VICE CHAIRMAN JIM SAXTON

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NEW STUDY QUESTIONS RELIABILITY OF TREASURY TAX DISTRIBUTION DATA – Validity, Quality, and Integrity of Treasury Statistics in Doubt–

WASHINGTON, D.C. – The Treasury’s tax distribution numbers are statistically compromised and include conjectures and guesswork making their reliability unknowable, according to a new Joint Economic Committee (JEC) study released today by Vice Chairman Jim Saxton. The study also notes that the Treasury is not in compliance with federal rules (OMB Circular A-130), which set minimum standards of data release “so that users are fully aware of the quality and integrity of the information.” The new study, *A Guide to Tax Policy Analysis: Problems with Distributional Tax Tables*, also reviews a variety of related statistical issues. The data under review are often at the center of policy debates over the impact of federal tax changes upon taxpayers at different income levels.

“Government statistics can have important policy implications, so any errors or other data limitations should be disclosed, as is normally the case,” Saxton said. “Although these Treasury statistics have been the center of many important policy debates, the Treasury has not complied with the disclosure rules governing the release of such statistics. Simply put, the Treasury is releasing statistics in such a way that it is impossible to evaluate their quality and integrity despite their often-explosive policy impact. It appears quite possible that the Treasury itself does not know how reliable these statistics are.

“How could a major federal department release numbers without knowing their quality or integrity, as required under federal rules? According to the study, key elements of the distribution data are necessarily ‘highly conjectural,’ as acknowledged years ago by Henry Simons, an intellectual pioneer in this area. For example, elements of income are imputed to taxpayers on the basis of estimates of what it would cost them to rent their own houses from themselves. In other words, these elements of the data are little more than guesswork whose reliability is by definition unknown. This guesswork is one factor making statistical reliability virtually impossible to determine.

“In addition, data from a number of sample surveys are blended together by the Treasury in a way that makes the end product statistically compromised. From a statistical point of view, the reliability of these data is actually less than the sum of their parts. The reliability of the end product is virtually unknowable due to the way the data are combined. The bottom line is that the Treasury is releasing statistics that do not meet minimum government standards because they are constructed in a way that make a determination of their statistical quality and integrity virtually impossible.

“Also, the tax payments of taxpayers before and after a tax change is taken into account, are normally undisclosed. A reasonable person might think this is the most rational context in which to judge the distributional impact of tax changes. For example, if a tax bill left the distribution of tax payments by income class unchanged, it would be difficult to argue that it is an egregiously unfair policy. But by withholding this information about current and future tax payments, almost any tax relief measure can be portrayed as unbalanced.

“The highly selective release of unverified government statistics is exactly what federal standards are designed to prevent. As federal rules also state, ‘Because the public disclosure of government information is essential to the operation of a democracy, the management of Federal information resources should protect the public’s right of access to government information.’ I have written Secretary Summers asking for an explanation of this matter, and am hopeful that one will be forthcoming.

“Needless to say, these disclosures should also be made by others releasing similar Treasury data. Data limitations should be disclosed as a matter of routine, as should the pattern of tax payments before and after a tax change is accounted for so that a context for judgment is provided. The new JEC study provides a useful checklist to assist consumers of such data products, with the objective of encouraging full disclosure of relevant information and minimizing the manipulation of government statistics,” Saxton concluded.

For JEC research and studies on the taxation, please see the JEC website at www.house.gov/jec.

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