

Testimony of Andrew Reamer, Research Professor, George Washington Institute of Public Policy, George Washington University to the House Appropriations Subcommittee on Commerce, Justice, Science, and Related Agencies. Honorable Frank Wolf, Chairman. March 11, 2011.

Mr. Chairman and Members of the Subcommittee:

My name is Andrew Reamer and I am a research professor at the George Washington Institute of Public Policy, George Washington University. The focus of my work is on federal policies that promote national economic competitiveness and job creation.

I appreciate the opportunity to comment on the proposed FY 2012 budgets for statistical programs in three agencies under this subcommittee's jurisdiction:

- **Census Bureau – I recommend \$278.5 million for salaries and expenses and support the president's request for \$752.7 million for periodic censuses and programs**
- **Bureau of Economic Analysis – I support the president's request of \$108.9 million**
- **National Center for Science & Engineering Statistics – I support the president's request of \$38.01 million**

Data produced by these three agencies guide millions of public and business decisions that determine the safety of \$69 trillion in household assets and \$36 trillion in nonfinancial business assets and the health of the nation's \$14 trillion economy. Consequently, the nation's return on the proposed \$1.14 billion investment in these agencies will be extraordinarily high.¹

Federal statistics are essential to the nation's ability to emerge from the Great Recession and achieve growth and stability over the long-term. Current, accurate, detailed data are needed by

- federal economic and budget policymakers and independent research institutions to assess national economic conditions and propose policies that effectively stimulate growth, jobs, and profits
- state and local economic development organizations to identify and address concerns and opportunities for business creation, retention, expansion, and attraction
- education and training organizations to track labor market conditions and occupational supply and demand, including in science and engineering
- businesses to make decisions regarding location, markets, products and services, capital investments, research and development, and hiring

In the pre-Internet age, the primary purpose of federal economic statistics was to serve federal economic policy makers, particularly around economic cycle management. For nearly all non-federal users, data were not timely, readily accessible, or easily useful. Now, however, quantum leaps in information technology allow the federal government to quickly analyze and electronically disseminate large volumes of data for use in decision-making by a vast, diverse array of non-federal public and private sector users.

¹ For point of comparison, the 2010 payroll for Major League Baseball was \$2.75 billion.

Further, jumps in statistical agency IT capacities are just beginning to let federal policymakers have a deeper understanding of the structure and dynamics of the economy. If funded, these new data products are poised to contribute to more effective economic and fiscal policies.

Good federal economic statistics, then, make for more informed decision-making, enabling smarter public spending and business choices that enhance the nation's competitiveness and fiscal condition. Data-driven economic intelligence is like military intelligence, it is a necessity, not a luxury, if this nation is to sustain a stable path of economic growth.

Census Bureau

The Census Bureau is the nation's primary data collector, responsible by congressional mandate for a substantial array of demographic and economic statistics at the national, state, county, and neighborhood levels. Data products include the decennial census, annual population estimates, socioeconomic characteristics and conditions of our communities, economic activity by industry and type of owner, and revenue sources and uses at all levels of government.

Census Bureau data are critical to business and government decision-making. Small and large businesses use demographic data to select locations, understand markets, and determine products and services. State and local economic development organizations use socioeconomic data to shape business attraction and job creation strategies. The Census Bureau's data on business activity are the primary inputs to Bureau of Economic Analysis (BEA) estimates of Gross Domestic Product (GDP) and related indicators.

From an economics perspective, I support full funding of the Census Bureau and its key initiatives. Continuation of the 2010 Census data publication process will ensure that decision-makers have current population-based data. Research and testing for the 2020 Census need to begin in FY2012 in order for the Census Bureau to conduct a cost-efficient, accurate census in nine years. The sample size of the American Community Survey (ACS) needs to grow with our population so that estimates are reliable. The Census Bureau needs to prepare for the 2012 Economic Census and Census of Governments, as mandated by Congress. The Bureau's proposal to create a new set of in-depth measures, including unfunded liabilities, regarding state and local government pension programs and other post-employment benefits (e.g., health insurance) is necessary and timely. The preparation of supplemental poverty measures will give policy analysts alternative indicators to traditional poverty numbers based on the relative size of 1950s food budgets. The proposed effort to test the use of administrative records will boost the capability of the Bureau to take advantage of information in-hand, lessening reliance on costly, labor-intensive household surveys.

I also recommend that the Subcommittee provide funding for two programs slated for termination in the president's budget, at a cost of \$6.5 million above the president's request for salaries and expenses.

Current Industrial Reports (\$4 million): In existence for over half a century, the Census Bureau's Current Industrial Reports (CIR) program surveys 40,000 firms in 47 manufacturing sectors (e.g., computers, aircraft, chemicals, machinery, steel, and pharmaceuticals) on a regular basis regarding their production and shipment activities. These data are used by BEA to estimate GDP, by the Bureau of Labor Statistics (BLS) to develop price indices and estimate productivity, and

by Federal Reserve Board of Governors to estimate industrial production. The loss of the CIR program would result in the substitution of less frequent, less detailed data, resulting in less reliable economic estimates. I encourage the Subcommittee to retain this high impact, low-cost program.

Consolidated Federal Funds Report (\$2.5 million): For 30 years, the Census Bureau has produced the annual Consolidated Federal Funds Report (CFFR), which provides detailed data on federal expenditures and obligations in all categories (e.g., contracts, grants, federal salaries, Social Security and other federal retirement/disability programs, Medicare and other direct payments to individuals, loans, and insurance) for the nation and every state and county. This effort is an essential resource for members of Congress and the public (42,000 website visits in 2010) who want to see the categorical, programmatic, and geographic distribution of federal spending. While the 2006 Coburn-Obama bill mandated the creation of USASpending.gov, that web tool only covers federal grants and contracts, not other categories of federal spending. I believe that the termination of the CFFR will leave congressional members with reduced understanding of the details of federal spending at the national, state, and district levels, to the detriment of sound fiscal management.

The annual cost of producing the CFFR in its current state is minimal, \$700,000. However, for congressional purposes, the current state is not sufficiently accurate. The majority of federal grant funds “pass through” state governments, which then spend the money around the state. At present, the Census Bureau estimates the county distribution of pass-through funds on the basis of percentages identified in a 1995 survey of states. As state population and transportation patterns have changed greatly in the last 16 years, the Census Bureau’s distribution formulas are not reliable. For House members to have an accurate picture of federal spending in their districts, the Census Bureau needs to conduct a new state pass-through survey, at a cost of \$1.8 million. Further, I suggest that Congress instruct the Census Bureau to provide on-line CFFR tables by congressional district, which are not available now.

Bureau of Economic Analysis

The data produced by BEA are directly responsible for moving the direction of the nation’s economy: through the monetary policies of the Federal Reserve, through the budget decisions of the president and Congress, through the actions of financial markets, through the decisions of businesses, and through state and local economic development efforts. The president’s request for \$108.9 million for BEA is an excellent use of taxpayer funds and I ask this Subcommittee to approve it.

In particular, I strongly recommend Subcommittee endorsement of the four BEA budget initiatives, totaling \$13.2 million. Collectively, they will allow BEA to address key blind spots in understanding of the nation’s current economic condition and activities and improve the reliability of traditional estimates. New and better data will make possible more intelligent, effective economic and fiscal policies and business decisions more likely to lead to jobs and profits. Further, the data will deter financial market surges based on misinformation about household or industry conditions, which, as recently witnessed, can have ruinous effects on the nation’s economic wealth.

Specifically, the four BEA initiatives are:

- A New Economic Dashboard, providing a more timely, detailed understanding of the condition of nation's major industries (e.g., finance), industry productivity trends, the drivers of sustained economic growth (e.g., net new investment), and the economic role of small businesses (\$5.2 million)
- Everyday Economics, producing a clearer picture of the economic position of American households in terms of savings, assets, liabilities, and spending, with a particular focus on home ownership (\$3.9 million)
- Modernization of Statistical Production, allowing more timely, reliable data with less economist staff hours (\$2.9 million)
- Energy's Economic Impact, yielding more detailed information on energy's role in economic growth, productivity, inflation, trade, and income distribution and on changes in energy supply, consumption, and cost (\$1.2 million).

Collectively, these initiatives will serve to enhance the safety of \$105 trillion in household and corporate assets and the soundness of nation's economy in five ways.

First, they will remove statistical blind spots in macroeconomic policymakers' abilities to see emerging economic risks and vulnerabilities. To quote BEA's request: "The federal economic statistical system – charged with providing key actionable intelligence on the status, trends, and dynamics of the American economy – fell short in providing the advanced warning signs of a building economic crisis. In no small part, this failing was due to an inability to see, both at the detailed and aggregate levels, warning signs of systematic risk. This failing was not a result of a lack of attention, competence, or focus, but rather the exceptional tempo of change and evolution occurring in the economy and the existing statistical system's inability to keep pace."

Specifically, the initiatives will produce the following new data series that will enhance economic monitoring: quarterly GDP-by-industry (allowing faster identification of sectoral issues, e.g., in financial institutions, than existing annual data allow); net domestic product and net investment (allowing observation of new additions to wealth and productivity capacity beyond replacement); productivity indicators across all major sectors; quarterly indicators of household liabilities compared to assets (giving early warning to overinvestment in housing); quarterly indicators of household income after taxes and essentials (enabling better monitoring of spending power and patterns); and the detailed role of energy in the national economy, by energy type (helping understand economic vulnerabilities to volatility in specific energy markets, e.g., oil). Statistical modernization will let policymakers act on the data more quickly.

Second, the BEA initiatives will result in more reliable forecasts of federal deficits under various scenarios. Current GDP estimates provide the foundation for economic and fiscal forecasting. Quarterly GDP-by-industry data availability and statistical modernization, with its improved checking procedures, will result in more accurate, reliable estimates of total GDP.

Third, the initiatives will provide financial markets with new data by which to better assess investment risk and opportunity. Financial market blind spots, and the resulting economic turmoil, resulted in the loss of \$10 trillion in U.S. household assets between 2007 and 2010, a 12 percent decline. New BEA measures of household economics, including the size and nature of assets and liabilities, would help prevent such catastrophes in the future.

Fourth, data produced by the initiatives will enhance the ability of the nation's corporations to make decisions more likely to lead to greater competitiveness, higher profits, and more jobs. Firms will be able to better understand economic conditions and competitive dynamics within their industries, household capacity to participate economically, the relative cost of doing business in various locations, and firm vulnerability to energy market activity. In particular, small businesses will benefit from direct electronic access to these measures.

Finally, detailed new data on small business activity will allow members of Congress and administration policymakers to take more informed, effective actions to catalyze the vitality of this key component of the U.S. economic base. In particular, the initiatives would produce new financial data by type of small business (S-type, limited liability, noncorporate partnerships, sole proprietorships) and identify energy market issues and opportunities for small firms.

I believe that the nation's return on investment in these initiatives will be so high that I invite the Subcommittee to ask the Government Accountability Office to ascertain this return to the extent possible.

National Center for Science and Engineering Statistics

To emphasize the importance of data to innovation, the America COMPETES Reauthorization Act of 2010 (P.L. 111-358) designated the National Science Foundation's Division of Science Resources Statistics as the National Center for Science and Engineering Statistics (NCSES) with the legislative mission to "...serve as a central Federal clearinghouse for the collection, interpretation, analysis, and dissemination of objective data on science, engineering, technology, and research and development."

NCSES produced detailed statistics on industry, academic, and federal research and development efforts; innovation outputs and outcomes; the science and engineering (S&E) workforce, and S&E education. These data are essential for guiding government, university, and corporate decisions regarding R&D, innovation, and education that will determine the nation's economic competitiveness in the years ahead. Consequently, I strongly encourage this Subcommittee to fully fund the president's request of \$38.01 million for NCSES.

The agency has proposed four initiatives worthy of the Subcommittee's support.

- More accurate estimates of the size and characteristics of the nation's S&E workforce—through a sample redesign of the National Survey of College Graduates that relies on new Field of Degree data from Census Bureau's American Community Survey (\$1.19 million)
- Improved methods for data collection, analysis, and dissemination (\$0.4 million)
- Feasibility test using administrative records from other federal agencies to measure R&D activity and improve data quality and timelines (\$0.3 million)
- Cyberinfrastructure investment to enable linking traditional NCSES R&D data with innovation outcomes data (\$1.5 million)

I very much appreciate the opportunity to present my views before the Subcommittee on the importance of fully funding the economic statistics efforts of the Commerce Department and the National Science Foundation.