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MEASURING ECONOMIC CHANGE

HEARING

before the

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CONGRESS OF THE UNITED STATES

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JOINT ECONOMIC COMMITTEE

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MEASURING ECONOMIC CHANGE

Wednesday, July 24, 2002

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
WASHINGTON, D.C.

The Committee met, pursuant to notice, at 10:00 a.m., in Room 311, Cannon House Office Building, the Honorable Jim Saxton, Chairman of the Committee, presiding.

Present: Representatives Saxton, Ryan, Smith, Dunn, English, Putnam, Maloney, Watt and Hill; Senators Sessions and Reed.

Staff Present: Christopher Frenze, Robert Keleher, Colleen J. Healy, Darryl Evans, Patricia Ruggles, Diane Rogers, and Matthew Salomon.

OPENING STATEMENT OF REPRESENTATIVE JIM SAXTON, CHAIRMAN

Representative Saxton. Good morning. It is a pleasure to welcome Secretary Evans and Professor Nordhaus before the Joint Economic Committee (JEC) this morning to address the issue of measuring economic change. As the structure and composition of the economy are transformed over time, we must ensure that our statistical system keeps up with the economic reality.

The economic data produced by the Bureau of Economic Analysis (BEA) are the foundation for much of the economic statistics used by decision-makers in government and business. These data on gross domestic product (GDP) growth, industrial output, consumer prices and many other features of the economy influence fiscal and monetary policy and are also closely watched by economists, financial analysts, investors and the public at large.

Although the BEA does a very good job with limited resources, it has proposed many improvements in its data to be implemented over the next several years. The BEA's strategic plan includes a number of proposals for improving the measurement of GDP and the quality and timeliness of its economic statistics in general. For example, as of last year, the BEA was still forced to use assumptions about the structure of the economy as it was in 1992. More efficient updating of the benchmarks is needed.

As the service sector has grown in importance, so have the difficult problems of measuring the elusive value of many services. BEA is grappling with the issues and has several initiatives under way to improve the measurement of the service sector output. Additional improvements are also planned in the measurement of output in communications, pharmaceuticals, compensation and a variety of other areas.

As we all know, information technology has transformed many areas of the economy. More timely, complete, and accurate economic data on information technology would improve our understanding of the important contribution of this sector to economic growth and labor productivity. The BEA has proposed a better benchmark estimation of software and development of improved price measures for software products as well.

Accurate measurement of prices involves a number of issues, including accounting for quality improvement. Several years ago the Joint Economic Committee held a series of hearings on the consumer price index where quality change appeared to be among the most difficult issues, and the same can be said of price measures produced by BEA. Inaccurate measures of price changes have broad effects and can distort measures of real output.

The BEA has a good plan in place to bring the national economic accounts up to date and improve their accuracy. I hope those plans can proceed without undue disruption related to funding issues. The data produced by BEA are the basis for many critical economic decisions, and we need to ensure that this information is as accurate as we can possibly make it.

Senator Reed has arrived. So, Senator, if you have an opening statement at this time, we will be happy to yield the floor to you.

[The prepared statement of Representative Saxton appears in the Submissions for the Record on page 42.]

OPENING STATEMENT OF SENATOR JACK REED, VICE CHAIRMAN

Senator Reed. Thank you very much, Mr. Chairman, and let me commend you for holding this hearing on measuring economic change. Welcome, Secretary Evans.

Reliable information about the performance of the economy has always been critically important for both private and public decision-makers. It is especially important now, as information technology has created new industries and transformed old industries in ways that raise a number of challenging measurement issues.

I am pleased that Secretary Evans is here to discuss the statistical activities of the Department of Commerce, which houses two key statistical agencies: the Bureau of Economic Analysis and the Census Bureau.

The BEA is responsible for statistics on gross domestic product, our most fundamental measure of economic output. The Bureau produces a whole system of economic accounts laying out the details of GDP such as how much of our output is consumption and how much is investment. These accounts also tell us how much of the income earned producing GDP comes in the form of employee compensation and how much comes in the form of profits or other capital income.

The Census Bureau collects much of the source data from businesses and households that is used to construct those national accounts. The Census Bureau's economic census is our main source of information about the structure of American business and the products that it makes.

In addition, the Census Bureau provides us with critical data on how individuals and families are doing economically. Traditionally, the long form of the decennial census has provided us with our most comprehensive data about family incomes and other measures of individual well -being. Now the Census Bureau is looking forward to launching the American Community Survey, which would provide similar data but on a more frequent basis.

I am also pleased that Professor Nordhaus will be testifying today. He has excellent credentials as a close student of our statistical infrastructure and an active participant in efforts to make it better. I hope that he will provide us with a frank assessment of our current efforts to measure economic change and with constructive suggestions for improving those efforts.

Again, thank you, Mr. Chairman, and thank you, Mr. Secretary.

[The prepared statement of Senator Reed appears in the Submissions for the Record on page 44.]

Representative Saxton. Mr. Secretary, it is a great pleasure to welcome you here to the Joint Economic Committee today. We look forward your testimony. We know that the August break is shortly to be upon us. I know you are looking forward to going back to Texas, as I am looking forward to going back to New Jersey. So this is a good opportunity for us to review these matters which are, of course, of great importance.

Sir, the floor is yours, and we are anxious to hear your testimony.

OPENING STATEMENT OF THE HONORABLE DONALD L. EVANS, SECRETARY OF COMMERCE

Secretary Evans. Thank you very much, Mr. Chairman. I am delighted to be here. Vice Chairman Reed, good to be here with you. Fellow Texan, Congressman Smith, good to be here with you as well.

I am pleased to have the opportunity to discuss with you the best way to measure this dynamic economy that we have in America. I have a few comments I would like to make. I would like to submit my full prepared text for the record, if you will, please, Mr. Chairman.

Representative Saxton. Thank you. That will be fine. We will do that without objection.

Secretary Evans. Thank you very much.

America is the greatest economic engine in the world. It is the greatest economic engine this world has ever known. Our entrepreneurial capitalistic system is based on the values of trust, responsibility and accountability. But the recent cascade of corporate scandals has shaken trust in the American economy.

The good news is the vast majority, by far, by far, of the corporate leaders of this country are honorable, trustworthy people; and the President's proposals to restore confidence in the system are being put into action.

The other good news is that, despite the challenges of the past year, our economic data tell us that the American economy is fundamentally strong. President Bush came to office with a long-term economic growth plan. It started with tax relief, an energy plan and education reform. We appreciate Congress's support for these programs and these efforts.

The President's economic growth plan includes expanding trade and opportunity through trade promotion authority, and it includes passage of a terrorism insurance bill so that major construction projects can go forward and create new jobs. I hope Congress also will move this important legislation forward.

As Chairman Greenspan reported last week, we have a remarkably efficient and productive economy, positioned for sustained, healthy growth long into the future. Productivity is rising. Inflation is low. Employment is growing again. Consumers are buying. Home mortgage interest rates are at a 30-year low.

As you know, the Department of Commerce produces most of our Nation's crucial economic indicators. The Federal Reserve, the Congressional Budget Office, the Office of Management and Budget and the Congress all rely on the trustworthiness of our reports for decision-making. So do nearly 50 Federal agencies and State and local governments and the business owner in New Jersey who wants to expand and the family in Rhode Island who wants to buy a home. Our economic releases are anticipated and analyzed by major media. Our statistical website get over one million hits a year.

Working closely together, our statistical agencies, the Bureau of Economic Analysis and the Census Bureau, have helped set timeliness and accuracy standards for the world. For far too long, however, these agencies have been running as fast as they can just to stay in place.

During the 1990s, BEA and Census did not have the budgets to keep pace with the dramatic changes that occurred in our economy. The statistical infrastructure suffered, programs were dropped, and the accuracy of measures fell as innovative industries came on the line.

President Bush's first budget addressed critical measurement problems. And I wanted to thank Congress for your support of that first budget. These agencies are still striving to make urgent reforms. Unfortunately, the fiscal year 2003 funding level as approved by Senate appropriations last week is significantly below the President's request. If approved as is, progress would stop completely.

Mr. Chairman, Mr. Vice Chairman, taking the economic pulse of the Nation is a big job, a critical job. We are extremely proud of the work the people at our statistical agencies do. Their products are trusted and recognized as among the best, if not the best, in the world. That is because of the continuing search for better ways to gather and deliver timely and accurate data.

In the rapidly changing economic landscape of the 21st century, to do the best job possible, our statistical agencies must be able to anticipate change, not just reflect it; and they must have the resources to do it.

Without additional funding we cannot move ahead on a number of critical priorities.

These include, first, improved GDP estimates. In recent years, revisions in GDP and income have often been a major source of error in budget forecasts. It is estimated that if the growth trend for real GDP was one-tenth of one percent off, the 10-year budget deficit missed the mark by over $230 billion.

Second, better and more timely foreign trade data. Our goal is to automate export documentation and release trade numbers in 30 days instead of in 50 days.

Third, more frequent measurement of the important services sector and improved measurements of e-business so we can get a better handle on investment in information technologies.

Fourth, funding also is requested for the American Community Survey, which is part of our strategy to reengineer the 2010 census and eliminate the long form.

And, fifth, we seek adequate funding for the 5-year Economic Census, which is the foundation on which virtually all of our economic statistics rest. Chairman Greenspan has called this census indispensable to understanding the American economy.

I recognize that budget challenges are great this year, but our statistical agencies have pressing needs if we are to provide Congress and others with the quality information required for long-term strategic planning. Our economic security depends on a foundation of timely, accurate data for decision-making.

As the appropriations process moves forward, we will be working with you and other Members on adequate funding for these vital economic measures.

We also look forward to working with Congress to enhance economic data sharing among BEA, Census and the Bureau of Labor Statistics.

This is a win-win-win for government, business and the public. It will improve efficiency and accuracy and result in a lower reporting burden on our businesses.

Before I conclude, there is one other point I would like to raise.

We have been fortunate to have a strong level of voluntary participation in our monthly surveys used to monitor the economy and estimate GDP. But, in recent years, there has been a downward drift in participation. Three months ago, we had to discontinue publishing information on the semiconductor industry because a number of large companies stopped providing data. We look forward to again hearing from these companies and from our businesses and other survey partners.

With the support of Congress and participation of the private sector, we can ensure that we have world-class economic data for decision-making by business, government, and the Nation at large.

Now, I am pleased to respond to any questions that you may have, Mr. Chairman.

[The prepared statement of Secretary Evans appears in the Submissions for the Record on page 45.]

Representative Saxton. Mr. Secretary, thank you very much. That was a very interesting and helpful opening statement.

Let me just start by thanking Senator Reed. The notion for this hearing was originally Senator Reed's idea, and I am glad that he brought it to our attention, because it is certainly something that is of extreme importance to those of us – to all people who take part in our economy and to those of us who are in government who need to understand various trends and movements in the economy.

One of the things that we have noticed here on the Joint Economic Committee is that statistical data that we get from time to time which help to explain economic trends to us changes, and the sources of that information changes, and the climate in which we collect that information often changes. Changes occur constantly.

For example, the global economy has become more integrated, which is a fascinating thing to watch. Also, the service sector has grown in size and importance, particularly in our country, and at the same time the manufacturing sector has become somewhat diminished. Thirdly, the information on the economy has transformed how our economy operates. Various efficiencies have been found through the use of technologies that have not been available in the past.

Each of these trends has important implications for the statistical coverage of our economic data. Would you be kind enough to say a few words and explain, if you could, how these trends have changed the demands on our data coverage and what changes the BEA instituted to take into account these important changes?

Secretary Evans. Mr. Chairman, you raise, obviously, a very important point. You touched on a number of areas where our economy has changed dramatically in the last 10 years. Let me try and kind of go through them maybe one at time with you.

Globalization. It is clear that trade is becoming a larger and larger part of our economy. The numbers are obvious, the numbers are evident, and I anticipate that will continue. That, as we look at our economy, the American economy, in the future we will find that a larger and larger percentage of it is connected to international trade. I mean, the number – just to give you a little feel, in 1970, trade amounted to about 10 percent of our annual GDP. In the year 2000, trade amounted to 25 percent of our annual GDP. This will continue.

Because of that, it is important that we have systems in place that accurately, and on a timely basis, measure trade activity that is occurring in our own economy. It plays a much larger part in not only where the economy has been but where it is going in the future, and we need to make sure that those who are making decisions have good, timely information.

One of the reasons that we are asking for a budget increase is so that we can shorten the time on trade data from 50 days to 30 days.

Representative Saxton. Mr. Secretary, I have to interrupt you for just one moment. As you can tell, we have a vote on. Mr. Smith was kind enough to rush over and back so we wouldn't have to suspend the hearing, so he is going to take the chair while I go vote. I wanted to say that so you don't think that I am being rude.

Representative Smith. [Presiding.] Mr. Secretary, please proceed.

Secretary Evans. Thank you, Congressman.

So one of the measures that we are taking is instituting steps to see that trade data – international trade data relates to the American economy, gets to those planners and people that need it on a more timely basis, reducing the data from a 50-day to a 30-day delay.

Another area of the economy that the Chairman mentioned that has changed dramatically is the service industry and the high-tech industry. Historically, what we have done is collect the service industry data on an annual basis. We need to go to a quarterly basis of looking at that data and seeing what that sector of our economy is doing.

We also need to look at the e-business sector of our economy on a quarterly basis. This would be the area of high tech or information technology and telecommunications becoming a larger growing piece of the American economy again.

We need to provide more real-time, quarterly information, instead of annual information. In an economy that changes as fast as the global economy is changing and our American economy is changing, what is important is real-time information. If your information is delayed too long, it becomes certainly not as useful to you. I wouldn't say useless, but it certainly is not as useful to you.

So there are two basic thrusts here. Not only are we talking about improvements to improve the accuracy of the data, which, quite frankly, fell off in the 1990s as a result of flat funding, but our accuracy declined in the 1990s, which is a major problem. So we need to not only improve the accuracy but the timeliness that the information is received by those who need it for their own planning.

Representative Smith. Thank you, Secretary Evans.

The gentleman from Rhode Island, Mr. Reed, is recognized for his questions.

Senator Reed. Thank you very much.

Thank you, Mr. Secretary, for your excellent testimony.

I can imagine, in the wake of September 11th, the President probably turned to you and your Cabinet colleagues and asked, what is going to happen to the economy? I can also imagine the last few days he has probably turned to you repeatedly, saying, what happened to the economy? What is going to happen to the economy?

I presume that your advocacy for these improvements suggest that when you are called upon to answer these questions that the kind of statistics you need and the real-time response rate is not up to the standards you would like to see; and, as a result, this is not an academic exercise. This has a real impact on policymaking.

If you would, could you elaborate on what you say are the needs that are not being met now and data that you can provide better information to the President?

Secretary Evans. Yes. Senator, again, I think one of the most, you know – two troubling areas. One has been the accuracy. I think the most obvious one is in the area of GDP. Because we all know how often that indicator is used in terms of planning and forecasts and how important that measurement is for monetary policy, how much the Fed relies on that being an accurate number so that they can set their own monetary policy, which as we all know influences interest rates in this country, which influences the interest rate that is available to a family to buy a home.

So kind of starting with the macro of, you know, one data point of GDP, but then stepping back and understanding the impact of that one number on this national economy and missing it by just one-tenth of 1 percent can have major swings in how people react in major swings to the economy. I mentioned in the long-term budget planning process if you were off on the GDP number by one-tenth of 1 percent over a 10-year period, it changes the number by $230 billion.

But again, going back to what the Fed looks at when making their own decisions and setting monetary policy, if they are thinking that the number is 2.5, but it is really three, then they are making a decision with bad data and with bad information.

That applies to, you know, all of the information that we provide, not only just the GDP numbers, but, as you know, as I talked about, the vast amount of information across this country, to not only the Federal Government, to the distribution of billions of dollars across the country but to State governments and local governments, municipalities, how they distribute income, how they distribute grants or funds within their own States.

From the business community standpoint, I mean, they need to look at trends that are taking place in our society to determine whether they are going to build a plant or they are not going build a plant. Local governments need to use this data to decide whether they are going to build an elementary school for their children or whether they are going to build a hospital for their community.

So you just can't put enough emphasis on how important the accuracy and timeliness is of this data for all Americans in making decisions in -- whether it be their own daily lives as to whether or not they are going to purchase a home or not, or whether it be the chairman of the Federal Reserve Board setting monetary policy.

So, you know, it is just -- it is very troubling to me that we would see the accuracy of our data decline over the last 10 years and really know the major impact it can have on this economy and not take aggressive measures to correct that.

Because, although I realize the – I certainly understand the importance of fiscal discipline at this moment and understand the importance of setting priorities in this country at this moment when the country is at war, it is not complicated. But one of the things this country needs to have to function well and function efficiently is have accurate, timely data; and if we don't have that, we are not functioning as efficiently in this country.

Senator Reed. Thank you.

Mr. Secretary, if you would comment about the American Community Survey. In your testimony you mentioned it and talked about its importance. It would be a complement to the decennial census. If you might elaborate.

Secretary Evans. I would be happy to. Senator, I think this is another critical program. Instead of having long-form data available every 10 years, we will have it available every year. Every year. We will be in a position to provide the kind of information that this country has in the past only received every 10 years.

So, again, when you look at the changes between the 1980 and the 1990 census and then the changes – the dramatic changes between the 1990 and 2000 census, you clearly understand how important it is to have this kind of long-form-related information every year available to not only the Federal Government but State governments and local governments and all of the other people across America that use this kind of information to make decisions.

You know, when you have got a $10 trillion economy, if you can improve the efficiency of it one -tenth, 0.1 percent, by providing better information to people so they are making better decisions, you are talking about tremendous savings to the American people.

Senator Reed. Final question. I know in the area of computers there is a factor there of quality improvements, not just the price data but that they also look at improvements, such as processing speed, and in other sectors like pharmaceuticals, that price is not the only indicator because of the efficacy of the pharmaceuticals. I wonder if there are plans in your statistical operations to try to capture some of the quality aspects as well as the price aspects.

Secretary Evans. Of the pharmaceuticals?

Senator Reed. Pharmaceuticals. Telecommunications.

Secretary Evans. I will have to get back to you. I am not aware of that.

Senator Reed. That is all right. Thank you very much.

Representative Smith. Thank you, Mr. Reed.

Mr. Secretary, I have one basic question. It really goes to the high-tech sector.

Two of the most amazing and impressive figures I read about this year go to the contributions that the high-tech sector has made to our economy. The first one was that, since 1995, the information technology sector has accounted for two-thirds of the increase in productivity in America.

The second statistic was in a report that shows CBO (Congressional Budget Office) assuming that in this decade the information technology sector would contribute $500 billion in productivity to our economy.

So it is clear to me that, although the IT sector is a relatively small component of the overall economy, that the high-tech industries' growth and prosperity is absolutely essential to the country's prosperity. In other words, if our economic health is going to be good, then the health of our high-tech industry has to be good as well.

So my question is this. What policies should Congress implement that will benefit the high-tech sector – and it is actually a two-part question. The second part is, what policies should we avoid?

When I think of policies that would be helpful to the high-tech sector, I think of broadband, depreciation reform, trade, and so forth, but I would like for you to tell us what you would like to see Congress implement that would help the high-tech sector and what we should stay away from because it might harm the high-tech sector.

Secretary Evans. Sure. Trade promotion authority (TPA). I mean, that is in first place. It is in a class by itself when it comes to taking a step that will put the high-tech industry in this country in a position to compete globally and grow over the next several decades.

There are other policies one can look at, even look at depreciation, and you can look at a few other policies.

But, really, you have to step back and think about the fact that our economy here in America represents about 25 percent of the global economy, yet we only have about 5 percent of the people in the world live here. Ninety-five percent of the people live outside of the United States of America. So when you start thinking about where the growth is going to come from, from our high-tech industry, it is going to come in large part outside of the borders of the United States of America.

What is important is, as we move into this more integrated, interrelated network economy in the world, that America leads in designing and defining what the rules are going to be and what the laws are going to be and what the regulations are going to be. If the President does not have the authority to sit down at the negotiating table and do that, then somebody else will; and I would suggest to you that, since somebody else is leading at the negotiating table, that the laws and regulations and standards will not be as American friendly.

You know, if the President has the authority to sit down at the negotiating table and lead these negotiations in establishing what the rules are going to be in a global economy, the rules are going to ensure that Americans are at least on a level playing field with the rest of the world.

There are way too many trade agreements that are taking place and way too many standards that are being established around the world today where America is not at the table or not in the agreement. There are one hundred and ninety trade agreements in the world today. We are party to three of them. Mexico is a party – we are a party to three with four other countries. Mexico is in 10 agreements with 34 other countries. The EU is in 33 trade agreements with 35 other countries.

So when you look at trying to create the conditions for our industries here in America to be prosperous and competitive and grow in the years ahead, there is not anything more important right now than making sure we are at the table leading the negotiations at WTO (World Trade Organization), at FTAA (Free Trade Area of the Americas) and putting us in a position to move aggressively forward with a number of bilateral free trade agreements.

So, TPA to me, is absolutely the most important measure that Congress can take to make sure that our high-tech industry remains competitive.

Representative Smith. After trade authority and trade promotion, would you have any specific recommendations when it comes to, say, depreciation reform or broadband deployment, for example?

Secretary Evans. Well, the President has talked about the importance of broadband deployment and making sure that we continue to aggressively deploy broadband in this country.

On depreciation, let me take that one. I don't have any specific recommendation at this moment. I would say to you, I think it was certainly very helpful, the measure that you took in the stimulus package when you passed the accelerated depreciation on equipment purchases and allowed for a 33 percent deduction in a 3-year depreciation. I think that was very, very helpful and certainly has helped. schedule

There are indications, in fact, that the production in the high-tech sector has begun to grow again in the last couple of months. In fact, even with telecommunications included, the growth in the high-tech sector production has been up at an annual rate of about 20 percent.

So it looks like the stimulus package that provided for some depreciation relief for industry and particularly the high-tech industry has had the kind of effect that we might hope that it would.

Representative Smith. Thank you, Mr. Secretary.

Representative Saxton. [Presiding.] Thank you, Mr. Smith. Ms. Dunn.

Representative Smith. Mr. Chairman, may I have unanimous consent to put a report in the record which is titled IT and Federal Revenues?

Representative Saxton. Without objection.

[The report entitled, "IT and Federal Revenues" appears in the Submissions for the Record on page 71.]

Representative Dunn. Thank you, Mr. Chairman.

Welcome, Secretary Evans. We appreciate you coming before us this morning.

As you know, by the end of this week Congress will have passed legislation dealing with the corporate governance problems brought on by the collapse of companies like Enron and WorldCom. We have done some things in that legislation like increasing criminal penalties for CEOs and encouraging transparency in accounting in the accounting area, for example; and I would like to ask you, are there other provisions that you believe Congress ought to be exploring? Are there other policies that we ought to be viewing in order to return the integrity and the confidence of the shareholder in today's markets?

Secretary Evans. Congresswoman, I think that – I guess what I have said all along through this period, having been someone that served in the private sector for 26 years of his life, I know that in this area there is not anything more important than trust and setting the highest standards in your own company, making sure that your entire organization is under a value system that rests on high moral and ethical standards. And that is not something that you can legislate. That comes from leadership. That is the kind of leadership this President has provided this country since he was sworn into office.

What we are talking about here is restoring trust. It always begins at the top. And this President, the day he was sworn into office, this country knows the high moral ethical standards that this President lives by and he leads by.

So when it comes to what other measures the Congress may be able to pursue, I don't have any specific ones. I think the ones that have been advanced and were put forth by the President last March are very constructive principles on which to reform the kind of oversight system we have in place, the kind of regs and rules that are in place for certification, the kind of regs and rules that are in place for disclosure. I mean, I think he laid out 10 points in a March plan that the SEC responded to, the Congress has responded to; and I think those are all helpful reforms.

But this gets down to trust and setting the highest moral and ethical standards and people leading that understand that. And, you know, people that lead that way – when they say yes, that means yes; when they say no, that means no, not trying to use a bunch of different kind of ways to deceive people.

So, you know, as I said in my testimony, look, by far the vast majority of the leaders in corporate America are honorable, decent people, people of integrity, as are the American people. That is why our system works so well.

As I have said often, our system hasn't failed us; a few people have failed the system. That hurts the entire system, though. That hurts the character of America, which is what makes me angry about it.

The one message that I try to send to CEOs is that they are responsible to their shareholders and their employees and their creditors and their suppliers. The private sector has a responsibility of implementing this great system, making it work. Government has the responsibility for creating the conditions for it to work. The private sector has the responsibility of implementing it and making it work. So when they violate it, they violate the entire system; and they violate America, as far as I am concerned.

So I think this issue goes back to the kind of standards that people were living by a long time ago. This is not something that happened just in the last two months when WorldCom announced they were restating their earnings. Those restatements were from financial statements years ago. If you look at all of these situations that are in the headlines today, they are from behavior years ago. So what kind of standards were people living by and leading by and governing by years ago that led to the manifestation of what we are seeing today?

So, look, these reforms are important. They are good. As I have said a lot of times, we have the greatest economy in the world. It has survived two world wars, it has survived nine recessions and one depression, and it will survive this troubling period we are in right now of some companies not providing information to their shareholders that the shareholders needed to have, the shareholders being deceived, and false information being put out in the public domain. We will survive this period. We learn all along the way. We learned through the last recession and from the Depression.

I think the reforms that the President laid out beginning, quite frankly, last February when he laid out some pension reform measures that I know passed the House in the spring and have yet to, I think, come out of the Senate, and then the 10 principles he laid out with corporate governance are all good, strong principles of reform that will be helpful.

But what will really be helpful is for people to understand their leaders in this world – hold their leaders to a high set of standards that their organizations must live by, because they are responsible for implementing this great free enterprise, capitalistic system that we have.

Representative Dunn. Thank you, Mr. Secretary.

Representative Saxton. Mr. Putnam.

Representative Putnam. Thank you, Mr. Chairman.

Good morning, Mr. Secretary. I appreciate your remarks to Ms. Dunn regarding the need for candor, honesty, leadership, and corporate governance. For that reason, I am curious if you agree with the characterization that has been made by others in the administration that the last decade was a binge and a decade of deceit and other terms that have been used like that which I think are derogatory toward the capitalist system. I hesitate to fall in with that characterization, that it was this gross, bingeful period where the rules were out the window and things like that, but I am curious to hear your opinion on that.

Secretary Evans. Well, Congressman, I guess I come in in a similar kind of way. There were clearly some excesses in the 1990s. But, before I get into those, let me once again go to my earlier point, that our system works so well because of three fundamental reasons. One is our freedoms in this country. The second is our free enterprise, capitalistic system that does create this environment of competition and innovation which leads to productivity. And the third is the basic honesty and decency and trustworthiness of the American people, all of them.

This country and the people in this country are basically honest, decent people; and I don't care what kind of system you have in place, if people are not, it won't work. So, you know, I start from the position that the vast majority of the people across this country, leaders and otherwise, are honest people.

Now, in the 1990s, you saw a period where to me there were some priorities that certainly were called into question as far as I am concerned. I am reminded of the bumper sticker that I saw on somebody's car in 1996 that said "the guy with the most toys wins." I mean, is that the kind of mind set that we have? Is that what our leaders are thinking? By far, I don't think so.

But did some people start to think in terms of how much can I put in my own bank account, as opposed to how am I going to help somebody else put something in their bank account or help their lives?

You know, I think when we had a stock market that got to a level that was 40 to 50 P/E multiples – historical P/E multiples in our economy are about 15. When you look at the market and it is at 40 or 50 times P/E multiples, you really have to wonder if people are paying attention to some of the enduring truths of business like cash flow matters, and cash flow determines value.

You know, I saw some examples of how people structured incentive systems in the 1990s. Didn't make any sense to me. I think we saw the example of how incentive systems do, in fact, influence behavior, in a negative way or a positive way. So I think when you have examples of what we are having to read about in the paper in the last six months of behavior that was taking place back in the 1990s, you can't help but think that and believe that, you know, some people's core beliefs may have been not in the right order.

But, as I said, Congressman, this free enterprise, capitalistic system is a durable system. It has survived a lot of troubling periods, a couple of wars and a Depression and recessions and an S&L collapse. But it seems to me that there was certainly an element of greed that made its way into the system in the 1990s that was a little bit disturbing.

Representative Putnam. Well, I would agree with your opening remarks regarding the fact that most people are open and honest, most business leaders, small business, big business, investors small and large, and that we have to be very careful about impugning the entire system and thereby undermining confidence in the entire system when we paint with such a broad brush as characterizing the entire decade under one adjective.

You mentioned that the number-one priority was trade promotion authority; and I am curious, with regard to the FTAA, whether the political and economic instability, turmoil even in some countries that are party to the FTAA, whether that has set back the time line and if you could give us some status of that agreement.

Secretary Evans. The time line, Congressman, is still January of 2005. That hasn't changed.

You know, some of the trouble spots in Latin America are disturbing, clearly, but I am going to remain optimistic that we will work through these and this Western Hemisphere will work through those and that we will be able to meet the time line of January, 2005.

When you have trouble spots, it makes it a little more difficult certainly, but my crystal ball is not clear enough to tell me exactly how that is going to play out down there over the next 3 years while we are negotiating the agreement. The last I checked, you know, we are continuing with our negotiations; and they are on schedule.

But, as I said, I think we have got a much better chance of making sure they do stay on schedule when we lead negotiations with them if we have trade promotion authority. If we don't have the authority to deliver an agreement in January of 2005, that probably troubles me a lot more than some of the isolated concerns we have in Latin America today.

Representative Putnam. Thank you. My time has expired.

Representative Saxton. Thank you.

Mr. Ryan.

Representative Ryan. Thank you.

Nice to have you here, Mr. Secretary. I enjoyed your comments about TPA. I am encouraged to hear how passionate you are about that.

I want to ask you sort of about the issue du jour, the issue at hand, which is the conferees just agreed on an accounting bill that will be passing to the House and the Senate later this week. These bills deal with criminal penalties on executives who break laws and providing or improving accounting standards and transparency and those kinds of things. We are going to pass that pretty fast. But what these bills don't really do is give the market tools to hold bad management accountable or to reconnect the interests of executives with those of shareholders.

What I wanted to ask you, because you have so much experience, not only just as Secretary of Commerce but in the private sector, I want to ask your opinion on some other market-based initiatives which are aimed toward corporate responsibility. That is, looking at laws like the Williams Act. What about an idea to repeal the Williams Act or some of the poison pill shareholder laws that have been stacked on top of each other in States and the Federal Government over the last number of years which have basically made it impossible for tender offers to be made?

You can make a very good argument, I think, that, because of the Williams Act and other subsequent laws, executives have been able to thwart any takeover bids of their companies and thereby denied shareholders the ability to reject bad management in favor of good management. It has also produced a culture whereby management has been able to insulate themselves from any chance of real takeover; and that has reduced the incentive to run a good operation, a clean, efficient operation and to make sure that their interests perfectly track those of the shareholders.

So wouldn't it be a good market-based system or a good tool to make it easier for takeovers to occur by repealing the Williams Act and other laws since then? What is your opinion on that?

Secretary Evans. Well, Congressman, I would have to look at the specificity of the Williams Act.

I would say to you that the market does have the tools to work with in terms of whether or not they hold management accountable or not. They don't have to own the stock. If they don't like the behavior of the management they can sell the stock. So, to me, they have got the ultimate tool to work with.

With respect to poison pills and the Williams Act, I would have to look at that Act specifically. I know in leading our company back in the late 1980s we put in place what some might call a poison pill, but it was designed to make sure that if somebody tendered for our company others would have the opportunity to enter into the game so that we could ensure our shareholders got the highest price for the stock.

Some of the methods that others used back in the 1980s would give a company the opportunity to basically come in and quickly acquire your company and shut out what would have been basically an auction process, would have allowed other companies to step in and really have let them have the time to look at your company and make a decision if they wanted to pay a higher price.

So some of those so-called poison pills were only pills to just delay the time long enough where others could get – realistically, others could get into the game and decide if they paid a higher price or not.

Management sends signals in all kinds of ways. I think one of the clearest ways management sends signals is through their compensation packages. That is a big decision you make every year, what is the compensation package. That gives people an indication of what your priorities are.

But there are lots of other ways you give people signals as to how you are running the company. You are watched every day, what decision you make, what kind of poison pill you have in place. If I am a shareholder and I don't like that kind of poison pill that this company has in place because I think all they are doing is just, you know protecting their own job or just trying to make sure that – yeah, just protecting their own job.

Representative Ryan. So you would agree there are some poison pills that aren't so virtuous on behalf of the shareholders?

Secretary Evans. I haven't looked at all of them. But if it is a poison pill that is clearly there to protect someone's job, I mean, that is not a poison pill I am interested in. If I am a shareholder and I see some company management has decided that and board has decided to put one of those in place, I may not be investing there. I may be investing someplace else.

So I think the answer is that I think we have got the tools. I think the market has got the tools. Because as investors get much more conscious of looking at companies and how they are run and decisions management makes, I think there will be a premium on management and the principles by which they run their company.

Representative Ryan. Clearly those tools exist; and, obviously, a shareholder can dump the stock. That is kind of a rash way of holding them accountable because you are no longer a shareholder. But don't you think that these tools have been diluted, though, over the last number of years in preventing takeovers or from preventing the threat of a takeover which holds management accountable, which gives shareholders opportunities to replace bad management with better management to revive their stock price?

I mean, some have argued that all of those collapses we have had from these prominent companies this year might have been avoided if the Williams Act and other types of poison pill regimes had not been in place.

So I think it is something that I hope the administration takes a look at. It is a very complicated area of law, and we are just starting to dig into it here. But I think you did identify that there are some poison pills that may be virtuous, that may be ones that look out for the benefit of the shareholders, but there clearly are some that don't do that, and I hope that the administration would take a look at this, because right now we are regulating ethics and morality with the bills we are passing up here, but the best antidote against mismanagement and accounting games and hollow greed, or whatever that is called, is the market, and anything we can do to help make the market work more efficiently, which is to work in the best interests of the owners of corporations, the shareholders, is something that I think that is well worth looking at. I think it is something that I sure hope that you guys take a look over there at the Commerce Department.

Secretary Evans. Good. Thank you, sir.

Representative Saxton. Senator Sessions and then Mr. Hill.

Senator Sessions. Thank you, Mr. Chairman.

Secretary Evans, I was a Federal prosecutor during the S&L crisis, and it is more and more coming back to my mind that it was an extremely painful time that we went through.

It was first brought into my mind recently. I saw a newspaper article that said people are putting their money in banking stocks because they have more confidence. I do believe that we have to go through a painful process. I think people lost discipline, executives, many of them did, not most, but many, and a painful process by which they lose what they have had, and many of them go to jail. That will probably help to restore confidence. It is just an important cycle.

Do you see that connection between the S&L, and could we come out of this with a stronger business sector as a result of confronting some of the slipshod practices and illegal practices that have been going on?

Secretary Evans. Oh, absolutely. Absolutely, Senator. I think in all of these downturns we have had through our history, we have learned from those downturns, and we have grown, and we have improved, and we are better.

This is one where I think boards will be much more disciplined than they have been. They will be asking much harder questions than they asked before. I think people will be taking their jobs, their responsibilities to their shareholders, the owners of the companies, much more seriously than they have before.

I think the light is going to shine very bright on the leaders of companies. People are going to be looking at their behavior and how they set their own standards in their own companies, and how they send signals.

So I am optimistic. I am very optimistic that – and as you said, and I so agree with you, that certainly there have been many that have gone astray, but not most. By far the leaders of this country do it right, and they are honorable, and their core beliefs are right. But to those who got a little off track, I think this is going to be a time when we are going to get them back on track.

Senator Sessions. I also believe that shareholders are invited to invest, and when they are invited to invest by the leaders of corporations, they give them information and data and statistics and debt ratios and profit margins and those kinds of things, and they have a right to rely on that.

So I do believe there is a Federal role for prosecuting a deliberate, willful misrepresentation of information to people who are asked to invest. That is not a violation of the free market or capitalism; that is the cornerstone of capitalism, that we have integrity.

Do you see a role for prosecution in these kinds of cases?

Secretary Evans. You bet. It is stealing is all it is. You are stealing from somebody else. It is not any more complicated than that. People can talk about it is this kind of fraud or that kind of fraud, but it is stealing from somebody. You are robbing them.

You are giving them information that is not accurate information, and they are investing their money based on that information, and then when accurate information comes out later on, then the result is a lower stock price, so what you gave the company is now worth less, you stole the money from them. It is not any more complicated than that.

Senator Sessions. I agree. It is that simple. When you get into the cases as I did with S&Ls and others, and you see that slide, it becomes oftentimes most revealed when the economy alters and things are not as good, and then the manipulations that have gone unnoticed before become quite clear.

I am afraid in the very next cycle now we have to follow through and make sure that the people who cheated, defrauded, and have stolen from innocent investors, who I consider myself to represent is the investors, I think that we will make progress. It will be painful, unfortunately, but maybe, hopefully, we will not have a prolonged effect, just a certainty that we are going to follow through with insisting on integrity. If we can get the public convinced of that – do you think we can do that in the short run?

Secretary Evans. Well, I am an optimist, Senator. Yes, I think we can. I think that the economy is performing well. We are seeing unemployment go down, we are seeing employment grow, we are seeing inflation is low, interest rate rates are low, productivity is strong, manufacturing and production numbers are up. So when we look at the economy, are we putting more people to work, are we adding jobs to this economy, is inflation down, are mortgage rates down, that all looks very, very good. The consumer is continuing to spend, continuing to be active in the economy.

So when we focus on kind of the real economy and how the economy is performing, I think people will feel good. I think that the reform measures that are being discussed and undoubtedly will be approved here in Congress and signed by the President, I think they will give people some confidence that, good, we are making strong reforms. It will hold people more accountable and ensure that we are getting accurate information and good information.

But it is going to take a little while. It is not going to happen tomorrow morning. We are going to have to stay with it for a while, but I think we will regain the confidence of the American people. That is what has been damaged, of course, is investor confidence and business confidence.

When we go back to that example of how one company hurt one investor, well, it hurts everybody in America, because when we damage the confidence of the country, we hurt the entire economy. So it is not just the one investor that lost his money because he was deceived, it is the whole — all across America people, the value of what they own is less because people start to question whether or not the entire system works like we want it to, and do we really have any confidence in our entire system. So we have to restore confidence in that entire system, and we will. We always have before.

You have talked about the S&L crisis. I lived through that myself. It was a tough, tough period for the economy, but we came out of it and restored confidence.

We all know what happened in the 1990s, the growth of that period was remarkable. If we look at the underlying fundamentals of this economy, we are performing very well. We are the envy of the world. We have every reason to be optimistic about where it is going.

Senator Sessions. Thank you for your clear and unequivocal condemnation of stealing from stockholders and fraud. I think that is important, and I appreciate the President being equally clear on that.

I think in the short run it shocked us, and maybe people in the short run think everybody – if they are talking about it in Washington, maybe everybody is corrupt in all our companies, but I don't think that is the case.

I think if we maintain tough, clear messages that we will not tolerate this kind of behavior, we can see a much shorter bounce-back, in my own judgment, in investor confidence.

Just one more question. No, my time is up. Thank you, Mr. Chairman.

Representative Saxton. Thank you.

Mr. Hill, and then Mr. Watt.

Representative Hill. Thank you, Mr. Chairman.

Mr. Secretary, nice to have you with us here this morning.

There is a great deal of talk about the new economy versus the old economy. You talked about our economy presently as growing, that the economy is good, yet the stock market is not collapsing, but it is retreating significantly.

There are some analysts who attribute the pickup in economic productivity growth to information technology, the new economy, so to speak. Is this correction in the stock market focused on just the new economy, or is it also including the old economy?

Secretary Evans. Well, if you are talking about the new economy being the information economy or the high-tech economy, I don't know.

You know, I have heard this "new economy" term a lot. I think one of the things we are learning is that there are enduring truths about business that have survived the test of time. The industrial economy, the new economy, the information technology economy, whatever kind of economy you want to call it, what really matters is cash flow. Cash flow determines value.

So at the end of the day, because capital competes for that cash flow, where do I invest my capital to get the highest return on my capital? So I am not one that really differentiates in any big way between a new economy and an old economy, or a new economy and an industrial economy, because I think we begin to lose sight a little bit of just some enduring truths about business.

The one point I do take is what you have mentioned, and I think you are absolutely right, that the information technology has delivered to this economy a fundamental structural shift in our productivity. I think the economists would basically say today that in the 1960s, 1970s, 1980s, that the productivity growth in our economy was anticipated to be about 1-1/4 percent or so annually. Now they would say to you it is probably in the range of 2 to 2-1/2 percent. Maybe it has doubled.

So the one thing that the new economy, if you want to call it new economy or information technology or high-tech industry, has delivered to this overall economy is higher productivity growth, which means basically just a stronger economy.

So I don't know, I think that it is important in times like we are going through right now, when we see stock prices come down and people concerned about it, that you go back to some fundamental principles that have survived the test of time.

One thing about the decline in the stock market, as I mentioned earlier, is that back in the late 1990s, 2000, the P/E multiples of these stocks got upwards to 40 times earnings. Historically the economy says it is about 15 or so times earnings is a norm. So when we get way outside that norm, we have to start to question how real these values are.

Representative Hill. I had a conversation with Arthur Levitt the other day. I asked him about the fundamentals of the stock market. He indicated to me that he thought this was a natural correction; that the market was way overvalued, and what is going on in the market right now was a natural correction to realistic economic conditions.

Do you agree with that?

Secretary Evans. Well, you know, I guess what I would say is that if we look at it historically, if we look at the market historically and tie to that some fundamental, enduring truths about business and investing capital, and how capital makes decisions, we have to question the peaks of the market a couple of years ago. We have to question the NASDAQ at 5,200 and the Dow Jones at that period of time.

I am certainly one that bets on America. I mean, I am certainly one that believes that, long term, betting on America is the smart thing to do. Short term one can make the argument that, yes, the market got a little bit ahead of itself in the late 1990s, and it is now correcting itself somewhat, but long term I am going to bet on America.

Representative Hill. Okay. Let me ask you one last question. I come from Indiana, and I have a rural district. Why isn't the farm sector included in productivity measures?

Secretary Evans. I don't know. I will find out, but I don't know what the reason is, to tell you the truth. But I will get you the answer. It makes no sense to me. It is part of the economy, isn't it?

Representative Hill. Yes. I couldn't agree with you more.

Secretary Evans. The last time I checked. So you told me something I didn't know.

Representative Hill. Thank you, Mr. Chairman.

Representative Saxton. Mr. Watt and then Mr. English.

Representative Watt. Thank you, Mr. Chairman.

Thank you, Mr. Secretary, for being here.

I have three areas that I want to go into, and I hope that I can do so in the time allotted, because they are kind of independent. The first relates to the avowed purpose of this hearing having to do with statistics-gathering and information-gathering. Your Department has two divisions, the Bureau of Economic Analysis and the Census Bureau. I think this is probably a good time to ask this question because I can do it after we are out of the political context for this. There will not be another census for at least eight or nine years, so maybe we can get an accurate, or a good, response to this question.

The census never has been accurate, ever, in history. It is probably more accurate this year than it was historically. It is hard for a lot of us to have a lot of confidence in other statistical information that is gathered when the primary focus of the Census Bureau, the mission of the Census Bureau, does not get us accurate information. It results, in some cases, in under-representation in the political context. It results in substantial under-compensation of some States and some areas, some geographic areas within States, because of the undercount.

The question I want to ask is what steps are you making right now to increase or get us an accurate census eight years from now, when you can do it outside the political context, outside of all these other things? What are we doing now to try to ensure the accuracy of the next census?

Secretary Evans. We are doing a lot. I appreciate you acknowledging that this last census was the most accurate ever, which was very encouraging, where we have the numbers down --

Representative Watt. Encouraging, except that North Carolina and various parts of North Carolina will still get substantially less Federal dollars because we are substantially undercounted, and the places that are the most over counted are the ones that need the Federal resources the least, and the places that are most undercounted are the ones that need it the most.

So, yes, we are making progress, but I am just trying to figure out how we are going to get to an accurate census.

Secretary Evans. Right. Right. All I was trying to set up is I think we are making progress. We made a lot of progress between 1990 and 2000. I think there is a substantial amount of progress that we can make between now and 2010, because of technology.

One of the things we are doing is we call for and ask for in our budget a computerized satellite mapping system that we do not have, using a GPS (global positioning system) mapping system that will enable our examiners, our walkers, to have better tools to work with in 2010 to collect the data. There is a much more exhaustive planning process, in my view, which has been described to me in laying out the 2010 census than has ever been provided before.

So some specific tools are bringing some technology into the equation that was not there before, like a more elaborate, more complete mapping program using GPS to do that. Second is just more focus on the entire planning process. Third, in my view, is going ahead and beginning with this American Community Survey, because that will take away the burden of having one huge long form in one year, and all the resources that are required for that part of the census, and just have a more consistent program collecting that data year by year by year.

So I don't think you have the tremendous surge, as you have seen; just the kind of people that you have to hire in that one year just goes up exponentially. Well, if you spread that long form requirement out over 10 years as opposed to putting it on 1 year, we can just see how we will be able to manage it more effectively and more efficiently.

But listen, I have to tell you that we are certainly all ears, too, if anybody has a plan that says this is the way to get to an accurate census, I mean "accurate" being the one that counts every person and says where they live on that day, which is the objective; it is not only counting everybody, but it is putting in a location on that day. It is a tough one.

Representative Watt. Let me go to the next one. Perhaps if you have additional embellishment to give me on that, you can give it to me in writing. I think you made a good faith attempt to answer the question.

The second question really has to do with something that I see happening here that I am concerned about on both sides of the aisle in response to this whole corporate accountability thing. There seems to be an effort to ratchet up the criminal penalties for misconduct, corporate misconduct, but if we go back and look at the S&L scandals, and I expect in the aftermath of this, WorldCom, Enron, all of the things that are happening now; we may get four or five people indicted and tried and sent to jail, but at the same time it seems to me that we have substantially undermined the civil liability responsibilities in two ways.

Number one, in 1995, as part of the Contract with America, in the name of doing away with frivolous lawsuits, we ratcheted up the pleading standards. Most people have now ignored that there was a lawsuit filed in 1999, I believe it was, against WorldCom that alleged many of the things that have now come out. That lawsuit was dismissed because the judge concluded it did not comply with the Contract with America pleading standards that we had adopted in 1995.

In 1999-2000, we made it virtually impossible to get civil liability for accountants and lawyers who participate as part of the conspiracy. Our whole legal system historically has been based on personal accountability and the ability of citizens to use the legal process to hold each other accountable. It is not always putting somebody in jail that assures that people will be accountable, it is the prospect that they could be sued and end up with substantial judgments against them.

I just wanted to get your response to whether you think we should revisit the two things that we did that basically made it very, very difficult to get civil liability in these kinds of corporate irresponsibility cases.

Secretary Evans. Here is how I would approach that. One is I think the President has laid out appropriate principles on which to—

Representative Watt. His plan does not include this, though. Most of my colleagues are not including it in their plan either. They want to beat on their chest and say, we increased the criminal liabilities. I am asking about the civil liabilities that are not in the President's plan.

Secretary Evans. What I am saying is – you are asking me if we – what we should do. What I think are the principles that have been laid out by the President are good, constructive principles.

It is clear to me that Congress has looked at those and is also passing on their own legislation here in Congress that they feel is appropriate, given the climate that we are in. I think there has been a House bill passed and a Senate bill passed, and they are in conference. They will send something to the President.

The other area, the other area in terms of the civil laws and civil penalties that I think we need to focus on is just enforcement. I think we need to enforce the laws that we have on the books. That is what the President has called for, and I know there has been call for it here, the opportunity to strengthen the enforcement, not only the SEC, but in the Justice Department as well, by putting together a corporate fraud task force that will make sure that the laws we have on the books are being strongly enforced.

I was not here in 1995 or 1999, so I cannot tell you exactly what those changes were, but I know that as far as I am concerned, we have some work to do, and have had for the last 10 years, in the area of enforcement. I think that is where we ought to make sure we are committing adequate resources.

Representative Watt. Thank you very much.

Mr. Chairman, I had another question, but my time is up.

Representative Saxton. Thank you very much.

Mr. English.

Representative English. I thank the Chairman. I want to thank the gentleman.

Representative Saxton. I want to ask Mr. English if he will assume the responsibilities of the Chair for a moment.

Representative English. [Presiding.] Certainly.

Thank you very much for your patience. I was sorry not to hear your testimony, but I have read it thoroughly. We have come to the issue of economic measurement, which I think is particularly important and relevant to many of the economic policy issues we are facing.

It seems to me that the issue of improving statistics and their timeliness is of particular relevance and one of my areas of interest, and, of course, I am referring here to the effectiveness of American trade laws.

As you know, relevant, timely economic information is absolutely critical to invoking the antidumping laws, for example, which your Department oversees. I wonder if you could amplify on your earlier testimony and share with us in your view the economic benefits of improved measurement and improved statistics when it comes to specifically making our trade laws more enforceable?

Secretary Evans. Well, I think the key on that one, Congressman, is the timeliness; not only the accuracy, of course, but the timeliness. We need the data earlier, sooner, so we can react quicker and we can follow trends of imports into our country in a real-time kind of world as opposed to being delayed. As we have proposed in this budget, we would be able to reduce our data on trade from 50 days down to 30 days. So that is almost three weeks earlier that gives us the information we would need to make some decisions with respect to a particular trade case or a particular sector of the industry that may be being impacted by imports. So it just gives us the information sooner so we can make decisions sooner for the benefit of those industries, sectors, so there would be an impact.

Other than that, I think the other thing I would say, sir, as I said earlier, was that we just need to understand how trade continues to be a growing part of this economy, and why it is so important that we are not only collecting our trade data earlier and reporting it sooner, but it is just a larger and larger percentage of this economy.

It is why we are asking – it is what our AES program is all about, with an automatic export system where we would require that companies file electronically their data so we could get it into the system sooner.

But as somebody who lived his life in the private sector, I know how important it was for me to walk into my office every morning and have a report on my desk as to what was occurring in our company real time.

Representative English. Could I put that into a concrete situation? Mr. Secretary, you and I have worked on the steel issue extensively. I want to again give you credit for being a leader in the administration to promote a stronger trade policy that not only focuses on opening up international markets for our products, but also leveling the playing field for American goods.

I think this administration has had enormous courage to pursue the steel policy that the President has put forward and advocated. I realize you are not getting as much credit for that as you did when we were not as close to the election, but those of us who have been fighting for steel recognize how much the administration has done.

Let me say in that particular instance, would not improved and more timely economic statistics have been helpful to the American steel industry in their utilization of American antidumping and other trade laws? Would it not have been helpful if steel companies had been able to identify surges in imports much more quickly, and would that not have given not only the companies, but the administration more options early?

Granted, I realize this surge occurred during the last administration, which was less aggressive in dealing with the steel issue. But if similar circumstances were to happen today, would not, with better measurement tools, the administration and the industry be able to respond to a crisis like what we have had with steel?

Secretary Evans. It would be clear to everybody earlier, and we could respond earlier. That impacts real people's lives.

As you said, I think the principle that we continue to stay very focused on as we open up trade around the world is a level playing field. I don't think there is anything worse than for a worker to feel like they are out there working in America and somebody else has an advantage over them around the world.

So I am very sensitive to wanting to protect the level playing field for all American workers, and part of that is being able to follow import surges and have that information earlier rather than later to take action when appropriate.

So yes, to me, it follows very clearly that the sooner that we have the information, the quicker we can take the action to make sure we can tell the American worker that we are going to provide a level playing field for you.

Representative English. My time has expired, but I do have other questions for you.

Again, I want to thank you, sir, for your direct involvement in fighting for the American steel industry and for other parts of the manufacturing sector that have been facing a real flood of imports. At a time when our manufacturing sector has been really suffering, this administration has been looking for real remedies, including through support of a stimulus package which had real incentives for capital investment to improve productivity and good-paying jobs.

I think on policy you have been right on point to help manufacturing, and we hope you continue those policies.

Secretary Evans. Thank you, Congressman.

Representative Saxton. [Presiding.] Thank you very much, Mr. English.

Mrs. Maloney, you arrived just in time for your turn.

Representative Maloney. Thank you so much, Mr. Chairman, and welcome, Secretary Evans.

I was on the floor of Congress and missed some of your opening statements, but I understand that you have a strong faith in our capitalist system, and I certainly agree with you on that, but that you believe that greed emerged in the 1990s, and that we are paying for that now. I know that the President made a similar statement in his speech in Alabama when he said, "we are suffering from a hangover from the binge of the '90s."

I recently asked Chairman Greenspan about his opinion about whether the 1990s, whether it was a binge or not. His opinion, I believe, is more in line with most economists: That the 1990s were a period of unparalleled economic growth, low unemployment, and government surpluses, and, yes, the market had extraordinary valuations that we are now correcting. But I think it is important to set the record straight that it was a very thought-out economic policy that helped create really the best economic climate in my lifetime.

I would like to use my time, Secretary Evans, talking about the census, which I served on in the last Congress. I want to speak about the funding for it.

With all of the competing claims now on our limited Federal dollars, there is a threat that the American Community Survey may not get its requested $125 million for fiscal year 2003. How severe would the impact on the American Community Survey be if Congress cannot find a way to retain the ACS funding in the 2003 budget?

As you know, we are now in deficit spending. It is becoming more difficult to find funding for priority items. The Senate recently marked up an appropriations bill that funded the Census Bureau at the 2002 level, and that budget had approximately $80 million in funding for the American Community Survey.

How will the Department spend that $80 million in fiscal year 2003 if the additional funds for the ACS are not appropriated?

Finally, is it possible that the ACS could miss its deadline of replacing the 2010 long form if it must start a year late?

Secretary Evans. Well, I guess it is possible, and I think that the request we have made, the President has made, to fund the ACS – fund the American Community Survey is a very responsible request. You should not try and do something halfway. I think we would have to look at the level of funding that was being provided and make a decision on what our recommendation would be as to whether or not we would go forward with the American Community Survey at that level of funding or we wouldn't.

So I have mentioned earlier how important I think it is not only to provide America the data that they need on an annual basis that is basic long form kind of information, and I think it is also very important to ensure that the 2010 census turns out to be the most accurate census ever.

So I am going to continue to fight for the funding for American Community Survey. I do not know exactly what the number is in terms of a go-no go. I think that is just something that we will have to evaluate.

Representative Maloney. Well, if the American Community Survey does miss its deadline, what will the Commerce Department do to assure that there is a long-term form as part – long form as part of the 2010 census? We will have to plan really far in advance to be able to make sure that the funding is there and the work is done every 10 years. You know that helps us plan for the future of the country. So many people in the Census Department and out of it are very, very concerned about the long form and the funding for the ACS. If we miss the deadline, will you ask for additional funding for the next year to make up for what was lost? What is the game plan?

Secretary Evans. I am sure that we will. Again, I say I am sure that we will. My crystal ball is not clear enough to know exactly what will be going on exactly a year from now, but we would certainly be very disappointed if we were not provided this funding.

We think it is very important, as you say, to a long-term plan, and that is what is required here is a long-term plan, not just showing up in the year 2010 and getting yourself organized. The planning is taking place now, the organization of it is taking place now, and part of that is beginning this American Community Survey now, which we tested a few years ago. The results were very encouraging. We think it would be an incredibly valuable tool to not only the Federal Government, but State governments, local municipalities, businesses, and people all across America.

We are going to fight for it very hard, and if we don't get it, we will have to look at it and see what we do next.

Representative Maloney. As you know, Congress takes a great deal of interest in the census. What plans does the department have for providing for congressional review of the long form questions on the ACS, as called for in the Census Act?

Members of Congress certainly indicated to me and Dan Miller, my counterpart, that they wanted more input in the long form. When do you expect that we will be able to see a draft long form that Congress can react to?

Secretary Evans. Well, I don't know specifically. I know that our people at Census have been up here on the Hill working very closely with Congress on this issue. What I hear is that these discussions have gone well and people are comfortable with the communication between the Department and the Hill. If that is not the case, then I will certainly make sure that it does happen.

So I think the best thing I can offer there is just to have our staff check with your team and make sure that you are satisfied with the kind of input that is taking place.

Representative Maloney. All right. Thank you.

As you know, the ACS has had some data problems on its own. For example, data from the ACS showed approximately 14 percent of the children in Maryland to be in poverty, while data from the current population survey shows only 6 percent of Maryland's children in poverty. This problem reappears in a number of other States.

What is being done to investigate these data quality problems with the ACS to make sure that the data is accurate?

Secretary Evans. Well, I don't know exactly what they are doing, except that they are taking steps to make sure that errors that have occurred in the past do not occur in the future. That is all part of the learning process.

I think as we go through, we are always learning from previous discrepancies or methodologies that we used that did not turn out to be – didn't reveal what we hoped they would, or accurate information.

So I don't know exactly. On those two specific examples, I don't know what we are doing, but I do know the importance our Department, which is led by a great team of people out there, places on improving the accuracy of the future census.

Representative Maloney. Thank you so much for your efforts. The Chairman indicates my time is up. I will have a few more questions on the census. I will submit it to your Department in writing. Thank you very much.

Representative Saxton. Secretary Evans, thank you for being so generous with your time this morning. We appreciate it very much. It is extremely important that we get accurate data, and your efforts in this regard are important.

Let me just emphasize something else that I heard this morning, which I think is extremely important. We are all struggling to try to understand what is happening with the financial markets, particularly the stock market. I had breakfast with a group of folks from New Jersey this morning who were worried about the economy generally, and, of course, that is a concern to all of us, particularly on this Committee.

But I think it is important to review, as you have, some of the data that we currently have available to us which reflects the condition of the economy. For example, GDP in the first quarter was 6.1 percent and is expected to be just under 3 percent in the second quarter.

Personal consumption is up in the first quarter; retail sales continue to trend upward. One of the real bright spots in the economy has been sales of family houses, both new and used, which continues to be very strong. Business investment may still be on the weak side, but it is not as weak as it was in the past. We see orders for nondefense capital goods continue to trend upward. We have got industrial production on the positive side. It went in the tank during the second half of 2000 and was really down in 2001, but now we are back positive again.

I could go on and on. This economic news from these indicators is all positive, yet we have one sector that is doing bad, and it is important to all of us, particularly people who are in their retirement years and getting ready to retire. I think you have made the point quite well today that our expectations from our business leaders have suffered here recently, in some cases. But I think we need to understand how strong our economy is over the long haul, and how much growth we are seeing in the economy today.

I don't know whether you want to say more about this issue or not, but you certainly seem to have some indicators and data that make this look a whole lot better than we see on CNBC when we go back to our offices and see what the stock market is doing.

Secretary Evans. I don't know how I can amplify it much more than that, Mr. Chairman. I think you have laid it out very well. The underlying fundamentals of the economy are sound, they are strong. The tax cut is kicking in. All indicators or most indicators are very constructive, very positive. Employment is growing, which is certainly a very powerful indicator that this economy is headed in the right direction.

GDP growth looks or was solid in the first quarter. We will see what happens in the out quarters. But I think there is every reason to be optimistic about this economy, and every reason, not only with the current data, but just looking at our economy historically and understanding that, look, we have been through difficult periods before, and it always – we always recover and always move to higher ground.

Representative Saxton. Mr. Secretary, I had to leave in the middle of my questioning earlier. Let me just ask one final question here, and then we will let you go.

One of the problems facing government agencies is the imminent retirement of many highly qualified employees. To take just one example, Bill Barron recently retired after a distinguished management career at both BLS and the Census Bureau. We here at the JEC have tremendous respect for his professionalism and expertise and are concerned about the ability of statistical agencies to replace people like Bill.

Is this going to be a growing problem over the next five years or so, and if so, how are we planning to address it?

Secretary Evans. Well, I don't think so. I am glad you brought Bill's name up, though. He was a wonderful public servant. I mean, he served this country with honor and distinction and integrity. I was fortunate to have him as the Director of Census when I was sworn in as Secretary of Commerce, and now the students down on the campus of Princeton University are going to have the benefit of his intelligence and knowledge and experience.

But we have a strong new replacement in Louis Kincannon, and I have a lot of faith in this country and in our education system in bringing others along. I see good talent continuing to move into government service.

Representative Saxton. Thank you, Mr. Secretary, again, for the generous allotment of time that you have been willing to spend with us here. We look forward to working with you in the future, and perhaps in a year or so we will ask you to come back and hopefully be able to look back on this situation that we are involved in now with the stock market and have a better explanation of what happened to cause it.

Thank you very much for being here. We appreciate it very much. We will see you soon.

Secretary Evans. Thank you very much, Mr. Chairman.

Representative Saxton. We are fortunate also to have with us this morning professor Nordhaus, Chairman of the BEA Advisory Committee.

Sir, if you would like to come up and share your thoughts with us, we would appreciate it very much.

Thank you for being with us, Doctor. When you are ready, we are.

OPENING STATEMENT OF WILLIAM D. NORDHAUS, STERLING PROFESSOR OF ECONOMICS, YALE UNIVERSITY; CHAIRMAN, BUREAU OF ECONOMIC ANALYSIS ADVISORY COMMITTEE

Dr. Nordhaus. Thank you very much, Mr. Chairman and Members of the Committee.

I have some testimony that I have prepared, and I would like to submit that for the record. Then, if I might, I would take five minutes to summarize the key points.

I have some remarks here, and they are summarized in a summary table of recommendations, which is the last page of the testimony, but I will just walk through and hit some of the high points in the next couple of minutes.

I am very delighted to have this chance to discuss some important questions about Federal economic statistics. This is a key area, and particularly so given the growing importance of technologically advanced industries, which create new data collection and measurement challenges.

You are probably familiar with economics on the television and in the financial markets, but I would like to say that there is also a major area of economics that deals with economic statistics in such places as the National Academy of Sciences. There are advisory committees of the BEA, of BLS, and of Census, and recently there is a new committee of the American Economic Association on economic statistics.

There is broad bipartisan support among the specialists in economic statistics on the need for developing and improving statistics, and although I don't speak for them, I will try to convey the broad consensus of professional economists on the importance of high-quality and timely statistics.

I don't need to remind this Committee on the importance of statistics for all kinds of public and private areas of decisions, but what I would like to do is just hit some of the important areas across many areas of the Federal Government and the private sector where we need some improvements.

The first area I would like to mention is the National Income and Product Accounts, which are produced by the BEA, the Bureau of Economic Analysis. These are their core accounts and are absolutely essential ingredients to analyze U.S. economic conditions and trends, and they illustrate all kinds of different areas. We need to continue to develop and improve these accounts, and I think that should clearly be the top priority for the BEA.

They have recently published a strategic plan that was in the Survey of Current Business in December, and then more recently in this year -- December of 2001, and more recently this year. They have a number of important items, such as integrated accounts, productivity data, industry accounts, and something I will spend a little more time on is improvement of the source data.

Aside from improvement in the BEA's strategic plan, I have a personal suggestion which I have communicated to the BEA, which is to develop an experimental index of monthly GDP, which would, as I explained in the testimony, allow us to get much better timely and finely resolved data on the business cycle for business cycle management.

A second area I would like to spend a little time on is the source data. Federal statistical agencies produce all kinds of data each month on output, productivity, income, inflation, foreign trade, and so on. These summary statistics, however, give a kind of misleading impression about how easy it is to produce reliable, comprehensive, and timely data, because the fact of the matter is that the numbers we read about each month, whether it is the GDP or the inflation rate, are just the visible tips of the statistical icebergs. Below the surface lie vast volumes of source data from all corners of the economy. These source data are collected by the Census Bureau primarily, but also by the BEA, by the Bureau of Labor Statistics, by the Federal Reserve, and other Federal Agencies. Our national accounts, indeed, all our Federal statistics, depend crucially on accurate, timely, and comprehensive source data.

We have good source data, but there are some major gaps. In my own view, the most important one is we need improvements on the income side, particularly data on compensation. We also need more reliable and timely data on international trade and inventories. I will say in a minute a word about some other areas.

I will mention briefly the administration's data-sharing proposal that was announced earlier this month. This is a relatively straightforward proposal to share data for statistical purposes, only business data, among the three major statistical agencies, and it looks like an excellent way to improve the quality of Federal statistics with little, no, or even negative cost.

The third area I will mention is the area of business statistics. I noticed that both the Chair and the Vice-Chair referred to these, and particularly to information technology, in their opening statements and in the background paper. It is interesting that in the area of productivity statistics as much as anywhere is a place where good economic statistics are so critical, because both the data and the methods used to construct these statistics are actually quite complicated.

If we look, for example, to figure 1 in my testimony, it gives a picture of what has happened to labor productivity over the postwar period (and for Mr. Hill's purposes, I know he is not here, but farms are in those data). The growth has actually increased since 1996 to a very healthy 2.8 percent per year, which is actually slightly higher than the average of the entire postwar period.

These data look so simple, but again, the productivity statistics are a very complicated business, and again, the tip of a very large statistical and methodological iceberg. They involve a variety of data, both source data and methodological, and sophisticated techniques. They are a joint product of data from BLS, BEA, the Census, the Federal Reserve, and other Federal agencies.

Some questions came up about information technology. If we went back to the procedures that were used in, say, 1990, we would not actually have been able to identify information technology and the growth in the productivity of these sectors that we now can identify in the data. This is because we have made improvements, primarily in this case in the price data, but also in the way those are combined and in the methodology.

There are two areas that I pointed out in my testimony where improvements are needed. One is better hours data and the other is better price data. In terms of hours, that is an important component of productivity statistics, but the data actually are, as I say in the testimony, probably unreliable, that probably understates it, for a number of reasons.

But, fortunately, the U.S. is about to undertake a new and fundamentally important survey, which is the American Time Use Survey, which will be fielded by the BLS next year. It will provide much better data on hours worked for productivity statistics, but also a wealth of data on how the population spends its most precious resource; that is, its time. I would hope the Committee would review this survey, because I believe it deserves the support of the Congress and of the American people.

The other area where improvements are needed in the productivity statistics is the construction of improved price indexes. There was a question earlier about pharmaceuticals and the introduction of constant quality price indexes there, which I think does not occur now in the government statistics the way we have for, say, computers and digital switching.

I would just remind you, you know that because the taxes and Social Security are indexed to the Consumer Price Index, measurement errors in the CPI cast a very long fiscal shadow. BLS has made some improvements in its measurement techniques over the last decade, but there is still much more work to be done and, I think, special efforts to be made, particularly to capture in price indexes the full range of new and improved goods and services.

I will touch briefly on two final points, one with respect to national savings and investment. We routinely hear that the Nation is investing too little and its savings rate is too low. The numbers say 1-1/2 percent of disposable income was saved, according to the BEA, for 2001.

But if we think more carefully, we might ask, are they really so low? The customary definition of savings and investment rely on extremely narrow definitions of these entities. For example, when I first penned these words, I wrote, "It must be hard to explain to a Secretary of commerce why the building of a factory to produce a new drug is an investment, while the expenditure of research on that drug is not; or why building a new library is investment, while purchasing books for the shelves is not."

One of the things that we know about the accounts is that they have too narrow a measure of national savings and national investment. And one of the recommendations that has come out of a number of economic groups is that we move beyond the national income and product accounts to the national economic accounts, which include not just production and income, but also consumption, accumulation, and wealth.

Finally, I will just say one word about the importance of private statistics. We have had some discussion today about this issue. The reason I bring it up is because many of the measures for the corporate sector rely on data from the private sector, rather than the public sector, rather than the Federal Government.

These private statistics are critical for decisions of both public and private sector. For example, government revenue forecasts depend on the quality of the data on compensations and profits. We as individuals, our investment decisions depend on these numbers. Like many others, I am particularly concerned about the accuracy of company financial reports.

And the analogy I would use is, you can imagine that if Olympic competitors were allowed to bring their own stopwatches and yardsticks to measure their performance, you might be skeptical about the results. Yet corporations bring their own stopwatches and their own yardsticks in producing their financial reports.

Now, there are many approaches to providing better accounting data. But I would say the primary need is for a uniform stopwatch and yardstick, one that uses a standardized set of rules. And, with this in mind, I would throw out a modest suggestion, a personal suggestion.

There is one simple and overlooked set of standardized accounts which already exists. It is the U.S. corporation tax system; because under U.S. law and regulations, U.S. companies have to file under a uniform set of guidelines and definitions. I would therefore recommend companies publish their tax returns. Additionally, companies should reconcile their financial and tax accounts. By examining company tax returns, analysts can get measures of the different financial components of a firm's performance that follow a standard set of rules.

So, in closing, I welcome this occasion to review the state of Federal statistics. The United states can be justifiably proud of its Federal statistical system, but the system needs to adapt to the changing environment. I believe the recommendations that I laid out and also that Secretary Evans discussed earlier will help improve the statistical basis for public and private decisions.

[The prepared statement of Dr. Nordhaus appears in the Submissions for the Record on page 55.]

Representative Saxton. We will go to Senator Reed at this point.

Senator Reed. Thank you very much, Professor Nordhaus, not only for your excellent statement, but for your patience as you waited to testify.

Let me follow up on the last point you made about the release of corporate tax documents. In the course of the debate about stock options, I learned something; which is, for purposes of the bottom-line accounts in a financial statement, stock options cannot be considered expenses, but for the purpose of taxes they often are, because they can lead to deductions. And I think, again, that sort of suggests that releasing corporate tax information might be useful.

Can you elaborate on some of the other insights that we might gain from that type of release of information?

Dr. Nordhaus. I really am not discussing the tax side, which is the prerogative of the Congress. But, the point is we would like to have, as we ask the Federal Government to provide the best economic statistics, we would also like the private sector to provide the best kind of economic statistics and financial statistics. And the problem, as we know is, that companies have a great deal of discretion in how they record items in their financial accounts, whereas they have much less discretion in how they record them in their tax returns.

So the idea here is simply to provide, nothing more than to provide a unified system of measurement that analysts and investors, people who are concerned, pension fund managers, endowment managers, people who are managing the pension statements for the State of California, the State of Rhode Island or the State of New Jersey or Connecticut, will have much better information about what the actual financial status of a company is.

There is also a well-known syndrome that companies want to minimize their income for tax purposes and maximize them for market purposes, and somehow maybe between the two of those we can triangulate the correct numbers. This is just a very personal proposal that I have, nobody else endorses it, but it is really with an eye to reminding ourselves that private information, information of private sectors, is also very, very important. And getting the best possible private information will help make better public and private decisions.

Just on stock options, I noticed that some firms are now going to change the way that they treat stock options in their financial statements. So we are likely to have a new set of discrepancies between companies where some will include the stock options, others won't, and we are going to be more confused.

Senator Reed. Let me follow up on another issue that I brought up with Secretary Evans and you commented upon. That is in terms of price statistics, trying to include quality improvements. For example, pharmaceuticals and others. That raises a question of, frankly, how good is that data about quality and how effective do you think we can be in incorporating that data into better measurements?

Dr. Nordhaus. That is a good and very sophisticated question, and it is one that economists and statisticians have worried about very intensively for the last decade.

At the present time, the U.S. statistical system uses what are called quality-corrected price indexes, sometimes known as hedonic price indexes, in a wide variety of areas. The most important is actually in the price data for housing, which is used by the Census.

But the ones that I personally focus on more are the ones that are used for the high-tech industries where we have hedonic-type techniques used in computers, in software, in digital switching, and in microprocessors.

And basically what these do is – let me give you an example. When I first bought my computer, a long time ago, my first Apple computer, it was about $2,500. When I bought my last computer it was about $2,500. And so if you were looking at that, you say, gee, the price of computers hasn't changed very much.

But if you think of a computer as just a box with a lot of components inside, you go inside the box, you would find that, in fact, what that computer was doing was improving at somewhere between 15 and 20 percent a year. So if you actually ask not what the price of the box was, but the price was of, say, a unit of computation, how quickly you can add things up, how quickly you can access the Internet, how much storage space you have and so on, then you get quite a different number.

The BLS which does – although the BEA started this, the BLS has now developed a program on quality correction. It is moving, in my view, very cautiously to ensure that the data on which these quality corrections are based are adequate and reliable.

So, for example, in the computers, what it does is it gets – I recall the number being in the hundreds of quotes – for different computers with different components from which it calculates these quality corrections. The other areas I am not so familiar with. But I know roughly similar techniques are used in the other areas I mentioned.

Moving beyond this, the BLS has started moving into other areas, consumer electronics and consumer durable goods. I have looked at some of those. I think again they are cautious and they are not moving too far too fast.

In the case of pharmaceuticals, which is an area that has been looked at in some detail in the academic community, I think this raises much more difficult problems, because it involves comparing new and old products, or generic and brand products, which raises a host of different difficulties; not just things that are inside the box, but actually things that consumers perceive as quite different products.

In my written testimony I have urged the BLS to move more quickly. I think there are some areas where it is relatively straightforward. This is extremely important, not just for the price data, but, as I also emphasized, for the output data, for the GDP data, the real GDP data. Just to elaborate on this, we never actually measure real GDP. It is a strange thing. We only measure nominal dollar GDP. We turn it into real GDP by taking the dollars numbers and deflating them by prices. So the real GDP numbers are only as good as the price numbers are good. So that is why it is doubly important to move ahead with good price measurement, not only for the Consumer Price Index, but for the GDP numbers.

Senator Reed. Final question. Along the same lines, we have a healthier, better-educated population. How do we factor in those statistics into our national accounts? And it is important in many ways. One, to get accurate numbers. But second, I think to suggest how critical investment in human capital is, education, health care, which is not as perhaps as prominent as it should be in terms of our deliberations here.

Dr. Nordhaus. Yes, I think that is a point that I skated over in my oral remarks but I did treat in my written testimony. The general point here as I mentioned in the case of the library, is that, technically speaking, our measures of saving and investment are very narrow. So we include in investment in the national income and product accounts basically only tangible capital investment, plant equipment, and houses, and one semi-intangible which is software. But there is a great number of categories of things that sound to me like investment and sound to most economists like investment, which we exclude.

Some examples: research and development are clearly, in my mind, an investment, but they are not counted as investment. Expenditures on education are not counted as investment in the national accounts, but I think they pretty clearly are of an investment nature. Some fraction of health expenditures is the same category. So there is a wide variety of things, many of them intangible, many of them involving investment in what we economists call human capital as opposed to tangible capital, which are excluded from the national income and product accounts.

Our estimates are all over the map about how important that is. Probably the most comprehensive estimate I know was from the late Professor Robert Eisner, who estimated that if you include all of those broad investment categories, it would be about five times what we actually include in the national accounts. So that gives you some idea of how much we need to broaden our perspective.

There are some initiatives underway in the private sector, and I know BEA is aware of these, to move to a broader set of accounting frameworks. BEA has already broadened, with the inclusion of software. They have published estimates on research and development. I know the BEA is very aware of those issues. But I think the proposal that I mentioned in my remarks -- which actually also a number of other economists have written about -- to develop more comprehensive measure of saving and investment, plus to develop an integrated set of accounts that are not only income and product, but accumulation, wealth and capital, would move in the direction of giving us a broader view of the Nation's saving and investment.

Senator Reed. Thank you very much, Professor. Thank you.

Representative Saxton. Thank you very much. Mr. Watt.

Representative Watt. Thank you, Mr. Chairman. And thank you, Professor, for being here. Let me make a comment on one issue, and then ask a question on a completely separate issue.

My comment is that had I not run out of time with the prior witness, I was going to ask him about your recommendation number nine, which would require public corporations to publish their tax returns and reconcile their financial reports.

Most of my constituents – as I was until this whole rash of irresponsibility broke out – were probably naive enough to think that a corporation kept one set of books, and that those were the books that they kept for IRS tax purposes. And so most people are surprised to find that there are two sets of books.

And I started thinking about this once we got into this. Unfortunately, I didn't think about it soon enough in the process to try to get into any bill either a study by the SEC or anybody else, or some standards that would require this. I kind of thought about it in the context of my own personal situation. If someone were investing in me, and they looked at my salary that I draw and the assets that I report on my financial statement, they probably would think that I was a pretty good investment. But if they looked at my tax return last year and took into account all of the losses that I suffered, they probably wouldn't think I was much of a good investment, at least for that 1-year period.

So I really think there is something to be said for trying to get some reconciliation of what corporations are reporting in their financial statements and public income statements, and what they're reporting to the Internal Revenue Service. What kind of profits they have after depreciation, after investment losses, after stock options, if they are accounting for them as expenses.

At the end of the day, there needs to be some reconciliation between those. And I think you are onto something here.

I guess my question along that point, if you have a quick answer, is why does there seem to be so much resistance to that notion? If you have any response to that. I wouldn't , maybe I shouldn't, it is unfair. I was going to get the Secretary to give me his views on that. But he got away before – I ran out of time before I could get his views on it.

Dr. Nordhaus. Very quickly. I don't think I said it should be required. I think I said they should publish. There is a subtle difference there. But let me respond.

Representative Watt. That is an interesting subtle difference, because I am – I would also be interested in why you make that distinction, because that would be very important as far as I am concerned in terms of public policy.

You are saying we shouldn't as lawmakers or as the SEC require them to do it, but they should do it voluntarily. Is that what you are saying? I am not trying to put words in your mouth.

Dr. Nordhaus. Let me respond to both of your questions. First, I don't know that there is resistance on this. There might be, but I have not encountered a lot of it. On the other hand, I wouldn't be surprised if there were. But my own view is that it often takes a long time for things, ideas, to percolate through the system, for people to become comfortable with them. I don't expect that if I were to scratch a top CEO that he or she would immediately say this is a fantastic idea.

I think, like most people, it is a "well, let me think about it," or "it is a terrible idea." But after time, as people realize that it would improve the trust that people have in the corporate sector, it would improve the quality of information for investors, as pension fund managers, endowment managers, large investors and so on began to see, hey, this is a way of cutting through all of the nonsense, then maybe give it 10 years, maybe it will catch on.

Representative Watt. I think you and I are probably pretty close to the same position on this. I am not sure I would have wanted to put a provision in the bill that would have required it. I think in retrospect what I would have liked to have done is put a provision in the bill that required the SEC or whatever this financial accountability board that – if they end up setting up some separate mechanism out there, to study the idea and report back with some recommendations. So we are probably not far off.

Let me go to the other question on a totally different issue. That relates to your recommendation number 5. And again this is just for my own edification, no trick question here. Just for information. I don't have an agenda.

I can see the government's need to measure the productivity of people during their work hours. What I am not clear on is the other part of it. Why do you think it is important for the government to have substantial data on – where is it – how the population spends its nonwork time? I guess that is the question.

Dr. Nordhaus. I think that is very good question. Let me just say BLS's effort is a comprehensive effort. But one of its main focuses is to get better data on hours worked, which is particularly important for salaried workers. You don't punch a clock, I don't punch a clock, so nobody knows how many hours you and I work. That is true of most salaried workers.

But the other question is, what about the nonwork time? The answer there, in my own view, is that there are many areas of life and people's time that we can use information on.

I will give you two examples. One is the way children are spending their time. For example, until recently – we have some recent data on this – we haven't really known, are children spending more or less time in day care, at home, or as latchkey children? And we will work time use surveys, not necessarily this one, but that is the kind of thing that will be important.

A second area that I am concerned about is the retired population, and what the activities of the retired population are. The median retirement age in the United States is 62, at which point people's life expectancy is a little more than 20 years. That group of people is entirely outside the statistical system of the United States. We don't have a clue what those people are doing, aside from collecting Social Security checks. We don't know if they engaged in volunteer work. Are they engaged in part-time unpaid work? Are they engaged in taking care of children or grandchildren or great grandchildren? Are they playing golf?

So I just think this is one area where we will be tremendously informed by this data. But again, I think the most important single use is the hours for productivity.

If I could just give you one final point on that. The U.S. had some private surveys, time use surveys, that were done a long time ago. And in one 10-year period where they had a time use survey, some scholars compared what happened to hours of work according to the BLS data, and what happened to hours of work according to the time use data. And they actually went in different directions.

The hours of work, according to BLS, were going up. And the hours of work, according to the time use survey, were going down. And not just by trivial differences. So I think these are very important things.

Representative Watt. Productivity was going up, though, so they must have been getting more productivity out of less work?

Dr. Nordhaus. Not only that, but if you use the time use survey, this would suggest that the productivity was going up more than the actual data suggested. Again, I think we will find this is one of the most important new statistical initiatives of the government.

Representative Watt. Thank you, Mr. Chairman. Thank you, Professor.

Representative Saxton. Professor, thank you very much. Let me just ask one question that I have been curious about. I am aware that there are efforts underway to standardize economic statistics across countries. Can you tell us what kind of — how that process is working and have we made progress?

Dr. Nordhaus. I am relatively unfamiliar with that. I will just say a couple of things there. There are a number of different efforts. There is one in the international balance of payment efforts. There is another effort in what is called the system of national accounts, which is a comprehensive system that has been agreed upon by a group the U.S. participates in, a group organized by the U.N. I think the most important is this SNA, or the System of National Accounts, which was agreed upon in 1993 and has been updated since then. The U.S. does not conform 100 percent to that system, and in my view shouldn't, because I think there are some differences where the U.S. system is superior. But I think it is useful to have rough comparability.

I will just say one area in which there has been a big difference in practice was the use that we talked about earlier with the vice chair of the quality-corrected prices. For things like computers, the U.S. has led the way in the use, both in the academic community and methodology and price correction, and actually in introducing those into federal statistics of the quality-corrected prices.

I went to a conference recently where the techniques of other countries were compared. Some were really pathetic. They just used the U.S. numbers instead of collecting their own data. Some don't do it at all.

I think that is probably the single most important area that needs to be harmonized among different countries.

Representative Saxton. Thank you very much. We are not going to hold you here longer. I just have an observation that I would like to make. Obviously when you and Secretary Evans speak, people listen. I have got my little computer here that tells me that the stock market is up 253 points. Thank you very much.

[Whereupon, at 12:30 p.m., the Committee was adjourned.]

SUBMISSIONS FOR THE RECORD

PREPARED STATEMENT OF REPRESENTATIVE JIM SAXTON, CHAIRMAN

It is a pleasure to welcome Secretary Evans and Professor Nordhaus before the Committee this morning to address the issue of measuring economic change. As the structure and composition of the economy are transformed over time, we must ensure that our statistical system keeps up and reflects economic reality.

The economic data produced by the Bureau of Economic Analysis (BEA) are the foundation for many of the economic statistics used by decision-makers in government and business. These data on GDP growth, industry output, consumer prices, and many other features of the economy influence fiscal and monetary policy, and are also closely watched by economists, financial analysts, investors, and the public at large.

Although the BEA does a very good job with limited resources, it has proposed many improvements in its data to be implemented over the next several years. The BEA's strategic plan includes a number of proposals for improving the measurement of GDP, and the quality and timeliness of its economic statistics in general. For example, as of last year, the BEA was still forced to use assumptions about the structure of the economy as it was in 1992. More frequent updating of the benchmarks is needed.

As the service sector has grown in importance, so have the difficult problems of measuring the elusive value of many services. BEA is grappling with this issue and has several initiatives underway to improve the measurement of service sector output. Additional improvements are also planned in the measurement of output in telecommunications, pharmaceuticals, compensation, and other areas.

As we all know, information technology has transformed many areas of the economy. More timely, complete, and accurate economic data on information technology would improve our understanding of the important contribution of this sector to economic growth and labor productivity. The BEA has proposed a better benchmark estimation of software, and development of improved price measures for software products.

Accurate measurement of prices involves a number of issues, including accounting for quality improvements. Several years ago the Joint Economic Committee held a series of hearings on the consumer price index where quality change appeared to be among the most difficult issues, and the same can be said of the price measures produced by BEA. Inaccurate measures of price changes have broad effects, and can distort measures of real output.

The BEA has a good plan in place to bring the national economic accounts up to date and improve their accuracy. I hope these plans can proceed without undue disruption related to funding issues. The data produced by BEA are the basis for many critical economic decisions, and we need to ensure this information is as accurate as possible.

PREPARED STATEMENT OF SENATOR JACK REED, VICE CHAIRMAN

Thank you, Mr. Chairman. I want to commend you for holding this hearing on measuring economic change. Reliable information about the performance of the economy has always been critically important for both private and public decision makers. It is especially important now, as information technology has created new industries and transformed old industries in ways that raise a number of challenging measurement issues.

I am pleased that Secretary Evans is here to discuss the statistical activities of the Department of Commerce, which houses two key statistical agencies: the Bureau of Economic Analysis and the Census Bureau.

The BEA is responsible for statistics on gross domestic product, our most fundamental measure of economic output. They produce a whole system of economic accounts laying out the details of GDP, such as how much of our output is consumption and how much is investment. These accounts also tell us how much of the income earned producing GDP comes in the form of employee compensation and how much comes in the form of profits or other capital income.

The Census Bureau collects much of the source data from businesses and households that we use to construct those national accounts. The Census Bureau's economic census is our main source of information about the structure of American business and the products it makes.

In addition, the Census Bureau provides us with critical data on how individuals and families are doing economically. Traditionally, the long-form of the decennial census has provided us with our most comprehensive data about family incomes and other measures of individual well-being. Now the Census Bureau is looking forward to launching the American Community Survey, which would provide similar data but on a more frequent basis.

I am also pleased that Professor Nordhaus will be testifying today. He has excellent credentials as a close student of our statistical infrastructure and an active participant in efforts to make it better. I hope that he will provide us with a frank assessment of our current efforts to measure economic change and with constructive suggestions for improving those efforts.

PREPARED STATEMENT OF DONALD L. EVANS, SECRETARY OF COMMERCE

Chairman Saxton, Vice Chairman Reed, Members of the Joint Economic Committee, I appreciate being here today to discuss ways the Congress and the Administration can better measure our economy.

With the President's budget request for the Census Bureau and the Bureau of Economic Analysis (BEA) you will see a wide range of key economic data sooner – the release of international trade data, for example, will be moved up by 20 days. Gross Domestic Product estimates will be subject to smaller revision. We will measure electronic commerce and the services sector quarterly. And we will build a strong statistical foundation with the 2002 Economic Census and the American Community Survey.

The Department of Commerce is responsible for some of the Nation's most important economic statistics. The Department's two statistical agencies -- the Bureau of Economic Analysis and the Census Bureau -- produce measures that have become a map helping us chart our economic course.

Americans use economic measures to make such important decisions as refinancing a home, planning for retirement, and investing.

Businesses use economic data from BEA and the Census Bureau every day to determine investment strategies, inventory levels, and business locations.

And governments use these measures to determine monetary policy, forecast public spending and revenues, and distribute billions of dollars in Federal and State funds.

The economic measures produced by BEA and the Census Bureau have become so ingrained in our decision making that some might take their existence for granted. However, during the 1990s, the economic statistics infrastructure suffered. While the U.S. and world economies underwent enormous structural change, BEA and the economic programs at the Census Bureau were unable to keep pace.

Programs were dropped and the accuracy of measures deteriorated. President Bush and I seek to reverse this trend and restore the confidence and faith in our nation's economic measures. President Bush's first budget requested important funding to address critical measurement problems. He and I continue to support funding levels that not only allow us to catch up but also begin to help the agencies see around the corner and anticipate economic changes that will need to be measured. Unfortunately, while these agencies are still striving to catch up and make urgent reforms, the FY 2003 funding level approved by Senate appropriators last week is significantly below the President's request. We simply will not be able to undertake all of the initiatives I will talk about later with the Senate's flat funding level.

President Bush and I firmly believe we must transform our economic indicators from ones that measure the economic structure of the past to ones that are forward looking. We need a statistical system that is able to anticipate the structural changes in our dynamic economy so that it can provide the most accurate, timely and up-to-date information not only for policymakers here in Washington, but, just as importantly, for the business in New Jersey or the family in Rhode Island.

I would like to discuss what the Department of Commerce's statistical agencies produce and how those data are used. Next, I will review why we need to continue to improve our indicators, even though some improvements already have been made with previous funding. I will talk about our initiatives for FY 2003 that will enhance the delivery of key data. And, finally, I will mention two programs underpinning the Federal statistical system now and in the years ahead for which funding next year is critical – the Economic Census and the American Community Survey.

Just a few weeks ago, when the Commerce Department's Bureau of Economic Analysis announced a five-tenths of one percent revision to the Gross Domestic Product, the Washington Post reported a rise in stock indexes as a result. Our data are reported, almost daily, on page A2 of the Wall Street Journal along with each release's broader effects. On the days when our main indicators are released at 8:30 a.m., commentary and interpretation on the business news networks are immediate.

Those headlines and attention are visible results of the constant and important internal work of top-notch mathematicians, statisticians, and economists at BEA and the Census Bureau.

Before I go on, I would like to address the uses of Federal statistical information by business, as well as businesses' responsibilities. Companies rely on these data to determine how they are doing within their own industries in terms of market share trends or fast and slow growth product trends. The data help companies identify market opportunities, site locations, sales territories, and potential customers. The data help companies evaluate investment opportunities. And, of course, the data are indispensable for knowing the current state of the economy.

Three months ago, reporting by large semiconductor companies in the Census Bureau's monthly survey of manufacturing activities dropped to the point where the Bureau had to discontinue publishing data on semiconductors. As a result, the Census Bureau can no longer produce bellwether sales and inventory data for this important industry. Moreover, the absence of semiconductor data leaves a hole that must be filled by estimates in BEA's GDP equation.

I consider participation an issue of corporate good citizenship, and I am hopeful that American business will work with the Census Bureau and other Federal statistical agencies to complete these surveys and deliver the data our nation needs. Ultimately, that participation yields information vital to informing decision making by business, government, and the Nation at large.

Our principal economic indicators are released from BEA and the Bureau like clockwork. At 8:30 a.m. and 10 a.m. at least 180 times a year, we can count on accurate data being released in a timely and secure manner. In fact, BEA released the second quarter 2001 international transactions report on time online on September 12, 2001, despite obvious disruption and the closure of the Government the day before.

Indeed, these data are available online and we see great interest. On busy release days 7,500 different users log onto the economic statistics pages at the Census Bureau's Web site. BEA's Web site sees 27,000 unique users each week. The Commerce Department recently launched www.economicindicators.gov that sends the BEA or Census Bureau release – free of charge – to subscribers' e-mail addresses.

Professionals at BEA and the Census Bureau are working these small miracles every day, but they intend to do even better. For starters, our statistical agencies need to measure an information economy -- not solely the industrial economy.

It is not acceptable for our statistical agencies to lag behind a rapidly changing economy. They must be able to quickly respond to important shifts in our economy and provide the information that reflects shifts, which are sometimes subtle, sometimes dramatic. It is vital that households, businesses, and policymakers know where our nation's economy stands, and that they know it now.

BEA and the Census Bureau must be positioned to anticipate economic change. The U.S. economy has undergone extraordinary evolution. Industries that did not exist a generation ago now lead economic growth.

The Census Bureau is the primary source of data for much of the Federal Government. It is the place other agencies go for their basic economic, social, and demographic data. Most people think of the decennial census when they hear the words "Census Bureau," but the Bureau's economic programs are invaluable.

Much of the Federal Government's economic statistics' strength rests upon the bedrock surveys taken and data assembled by the Census Bureau. Almost three-quarters of all the data used by the Bureau of Economic Analysis in the development of its Gross Domestic Product estimates comes from the Census Bureau. BEA's input/output tables, Gross Domestic Product by industry, and balance of payments estimates rely heavily on Census Bureau data.

Likewise, the Bureau of Labor Statistics (BLS) needs Census Bureau data or data collected by the Census Bureau for BLS to calculate the producer price index, productivity, employment, and price measures.

The Federal Reserve Board uses Census Bureau data to develop its index of industrial production, in its measure of capacity utilization, and in its flow of funds report.

Close to 50 different Federal agencies rely on the international trade statistics published by the Census Bureau.

To make the most out of these statistical agency relationships, the Administration has proposed legislation authorizing data sharing of business data among BEA, the Bureau of Labor Statistics, and the Census Bureau. This initiative will strengthen the Government's protection of all confidential data, permit the statistical agencies to learn from each other, and reduce the burden on business of data collection programs.

Moreover, enhanced data sharing would improve the reliability and accuracy of key business statistics such as GDP, employment, productivity, and industrial production and would permit the statistical agencies to resolve existing and growing data anomalies that raise questions about the accuracy of economic statistics.

Nearly 30 percent of single-establishment businesses had inconsistent four-digit standardized industrial classification codes in the separate business lists maintained at the Census Bureau and at the Bureau of Labor Statistics. This seemingly minor classification issue brings into question the ability to track accurately industry output, employment, and productivity trends. Improving the quality of these data is central to maintaining the foundation for our understanding of the economy and economic policies.

Beyond collecting and generating the data that serve as the foundation of Federal economic statistics, the Census Bureau produces principal economic indicators as well as other monthly and quarterly series that gauge the health of the economy. Our sense of the state of retail trade, wholesale trade, manufacturing activity, construction, and international trade in goods is derived from the monthly reports issued by the Census Bureau.

Often overlooked is the fact that much of our understanding of the role of governments, at all levels, in our economy also rests upon the data collected and published by the Census Bureau. The Census Bureau produces the basic data on State and local Government revenues and expenditures.

In turn, BEA uses Census Bureau data and indicators for its products, which influence decisions and forecasts along the way.

Let me take a moment to note that BEA is a relatively small agency but provides an impressive bang for the buck. President Bush noted this in his FY 2003 budget request when he cited BEA's statistical programs as one of the most effective programs in the Federal Government and held it up as an example for other agencies.

The Commerce Department recognized the development of BEA's Gross Domestic Product and national economic accounts as the Department's single greatest achievement of the 20th Century. And a recent private study named BEA's GDP release as one of the three most significant statistical releases impacting financial markets.

Federal budget forecasts developed by the Office of Management and Budget (OMB) and the Congressional Budget Office (CBO) are based, in large part, on estimates of GDP and personal income produced by BEA.

Businesses use BEA and Census data as part of their decision-making process. In addition to using macroeconomic data for investment decisions and long-range planning, detailed data also are used. For example, national retail outlets use the 80-plus household spending categories to help determine the mix of products to offer customers in their stores.

BEA's data move stock prices, interest rates, and exchange rates. They are vital to every American who runs a business, saves for retirement, or takes out a mortgage on a home.

It does not take long to connect the dots between data collection, calculation, analysis and real decisions -- whether by the Federal Reserve Chairman or a homeowner.

While BEA's estimates of GDP are among the most timely and accurate in the world, small errors in measured GDP growth have an enormous effect on the budget forecasts and thus policy decisions.

It is estimated that if the trend growth rate for real GDP is one tenth of one percentage point off, the 10-year budget projections miss the mark by $230 billion.

And that is really what I hope we can discuss today: how BEA and the Census Bureau can gather, calculate, and analyze the data even sooner and more accurately.

Decisions on monetary policy depend on the accuracy and timeliness of many of the estimates from BEA. A review of the Fed's Monetary Report to the Congress or the minutes of the Federal Open Market Committee reveal how heavily the Fed relies on BEA's estimates of GDP, prices, investment, consumer spending, and income data.

BEA estimates are used to distribute over $150 billion in Federal funds to State and local Governments and virtually every U.S. State uses BEA's quarterly State personal income estimates to either limit the rate of growth in budget or expenditures or to project State revenues and expenditures. In fact, 17 U.S. States, representing nearly half the U.S. population, have constitutional or statutory limitations on the growth of State spending tied to BEA's State personal income estimates.

We are grateful for continued Congressional support and, rest assured, BEA and the Census Bureau are moving forward and spending the taxpayers' dollars wisely.

The Census Bureau and BEA work hand in hand. BEA is the Census Bureau's most important customer and the two agencies are in contact every day. The staffs of the major production divisions at the Census Bureau meet routinely with their counterparts at BEA. Each year, managers collaborate and ensure that our statistical infrastructure is efficient and productive.

Indeed, BEA's specific needs are very much reflected in the Census Bureau's budget initiatives for FY 2003. An interagency team of BEA, BLS, and Fed officials had input on the Census Bureau's FY 2003 budget initiatives.

BEA is heavily dependent on source data from the Census Bureau so it cannot improve its programs without complementary improvements at the Census Bureau. And, with previous appropriations, we are doing both. But more work remains.

Until the last couple of years, BEA's budget had been relatively flat for a decade. Funding since FY 2000, has allowed BEA to enhance the GDP and national accounts by facilitating or improving estimates of software investment, Government retirement plans, and banking services. This year, BEA will incorporate new price indices for brokerage services and will improve estimates of wages. Working with the Census Bureau, BEA is getting a better picture of manufacturing, trade, and services to improve estimates of demand expenditures. These changes have helped to significantly improve the quality of BEA's core statistics.

In FY 2001, Congress increased the Census Bureau's economic statistics program by $2 million to continue its production of quarterly data on retail electronic commerce sales and to introduce annual measures of e-commerce transactions for the retail, wholesale, and manufacturing sectors and for selected service industries. Annual data for 1998, 1999, and 2000 already have been published along with a special study of the use of e-business processes in manufacturing plants. Today, the Census Bureau is the only source of official Federal statistics on the role of e-business in the U.S. economy, an activity with a value of about $1.1 trillion in 2000.

Two years ago, Congress also appropriated an additional $1 million, which permitted the Census Bureau to strengthen its efforts to persuade American companies to switch from filing paper versions of the documents required at the time of exporting to electronic versions of the documents. The switch to the Automated Export System or AES makes reporting by exporters quicker and less burdensome and the Government gets more accurate and timely data.

This brings me to the need for several initiatives in the President's budget that will close data gaps and improve the timeliness of our data.

The President's budget for FY 2003 requests $23.7 million to fund three projects to improve the economic statistics produced by the Census Bureau. Of that total, $13 million will be directed at measures to improve the quality of export statistics and get the trade statistics published 20 days sooner (from 50 days down to 30). Also, we estimate we are missing from three to seven percent of our exports, and we mean to close that gap.

Right now, approximately 15 percent of our exports are still documented on paper -- an error prone and sluggish process. The goal is to totally automate the export documentation process, which will make it possible to publish the monthly trade statistics almost three weeks earlier than is now the case. Our efforts would be helped greatly with the passage of language to require use of the Automated Export System.

I have placed special emphasis on the timeliness and quality of the trade data. Trade statistics produced by the Census Bureau and BEA are critically important for the development and conduct of U.S. trade policy. These figures are an essential component of the GDP and are also used to identify and quantify U.S. export interests and foreign government barriers to U.S. products.

The same trade data also support U.S. negotiating efforts to lower trade barriers and help us enforce trade laws.

In particularly trade sensitive industries such as steel and lumber, the Census Bureau has expedited data release. Since 1999, the Bureau has released preliminary monthly import statistics of steel mill products three to four weeks before the final report. Just last year, the Census Bureau temporarily released lumber import statistics early, so we could better monitor surges occurring after the expiration of the softwood lumber agreement between the United States and Canada.

We use Census Bureau figures on goods exports and BEA data on service exports to focus resources on areas with the most export potential. State-level trade data are used to determine how different areas may be affected by proposed trade agreements or enforcement actions.

We know we need better control of the goods moving into and out of the United States. On the export side, generating better data in order to help our export control agencies will be an increasing responsibility of the Census Bureau.

The President's budget proposal will give the Nation, for the first time, a measure of economic activity in the service sector on a quarterly basis. Currently, we only measure service sector activity annually and only at aggregate industry levels. We lack the detail necessary to understand what is really happening within service industries and, more importantly, how the service sector is contributing to productivity.

The President's budget request also will fund the collection and publication of detailed data on service activities.

To fill another gap in current statistics, the Census Bureau will start providing annual information on the cost of purchased services and materials for service providing companies. With these data, BEA and the Federal Reserve Board will be much better positioned to develop estimates of the value-added by the major service activities in our economy.

The President's e-business initiative will give us complete annual information on the wholesale sector of the economy, information we now have only every fifth year, plus data on how e-business practices are reshaping the wholesaling function. The initiative would also give us detailed annual information on business expenditures on hardware, software, and communications services. The growing importance of information technology in our economy and the troubles experienced by information technology companies in the last two years make better, more detailed data a necessity.

There is mounting evidence that supply chain relationships are changing across many U.S. industries. The traditional roles of companies are blurring. Companies are overlapping each other's business space. The Census Bureau will start a project to determine how this change is impacting the economy.

At BEA, the President is requesting $10.7 million in FY 2003 to accelerate the release of important economic measures including international trade in goods and services, annual gross state product, metropolitan area personal income, GDP by industry and annual input-output tables.

As we work to provide the most accurate and timely estimates possible, we also must continue to meet our international obligations by incorporating new international classification systems and providing U.S. economic information in formats compatible with international agreements. This system is known as NAICS, the North American Industry Classification System. And, I might add, we have heard from data users that they need us to reissue previous data series using NAICS. We have been able to do this for many indicators going back to 1992.

One additional initiative that will help the statistical agencies work more efficiently together to anticipate change is to remove the barriers between agencies to share data. The Administration strongly recommends new data-sharing legislation to help strengthen and improve our statistical system.

In addition to the critical initiatives at BEA and the Census Bureau to update our current economic measures, there are two initiatives that are the foundation of the American statistical system – the Economic Census and the American Community Survey.

Economic Census

Every five years the Census Bureau conducts the Economic Census. It is the most comprehensive collection of business statistics carried out by the Federal Government. The Economic Census covers 23 million business locations in the United States and provides information on about 96 percent of the Nation's economic activity.

Right now the Bureau is finishing up preparations to launch the next Economic Census. In December 2002, the Census Bureau will mail five million report forms to American businesses with a due date of February 12, 2003.

There will be 650 different versions of the basic questionnaire, tailored to the characteristics of individual industries. Recipients can respond the traditional way, by filling out a paper questionnaire. For the first time, companies will be able to respond over a secure Internet filing system.

To minimize the reporting burden on very small companies and on sole proprietorships, the Census Bureau will be extracting data from the administrative records of other Federal agencies to get the basic facts needed on another 16 million small business activities. All of the collection and analysis will be done in 2003 with first data available in the spring of 2004.

ACS

Also, facing a key year in 2003 is the American Community Survey or ACS. This is an initiative in the Demographic division at the Census Bureau, not the Economic directorate. Still, like the Economic Census, ACS will provide a foundation for U.S. statistics for the future.

Front-page articles have recently told the story of change throughout America's vast and diverse communities – specifically the change from 1990 to 2000 as measured by the census long form. To nobody's surprise, Americans have changed in the past 10 years.

Sociologists and demographers will analyze these numbers for years. But the data have a more immediate use for policymakers and political leaders at all levels of government who make key decisions that chart the future. These census numbers will help update and establish bus routes, determine the availability of Head Start programs, plan for the educational needs of America's children, and locate everything from elementary schools to veterans' clinics to new roads.

Across America, planners are working right now, not just to get you to work on time, but to get you out of danger when disaster threatens and to get an ambulance or firefighter to your door if it strikes.

Of course, the data also help in the distribution of hundreds of billions of Federal dollars to states and local communities.

That is why we are proposing the American Community Survey. This program is part of our strategy to re-engineer the 2010 Census and will deliver current data, every year, to every city manager, business, highway department, and economic development authority in America. It will also eliminate the long form and improve the accuracy of the next census by allowing the Census Bureau to concentrate its enormous, once-a-decade effort on one goal: counting every person in America.

Even though more information will be available, nothing more is required of individual Americans. No household will be asked to complete a survey more than once in five years. Most will never receive the survey. And Americans can be sure that their confidentiality is protected, just as it is in the regular census.

This program has been tested for the last six years in 31 sites – rural and urban – around the country and by a national sample of 700,000 households. The Commerce Department is certain that this program will deliver as promised, and we are encouraged by the results so far. In fact, many local data-users and decision-makers in the 31 test sites already are testifying to the real-life benefits.

If fully funded, much of the ACS data will strengthen the rest of the statistical system, by providing timely data, especially regarding personal income, the value of mortgages, and demographic data about our communities – all of which are important for improving the national surveys sponsored by a variety of agencies.

Again I would like to stress the importance of participation in our surveys. It is imperative to have data from business for an accurate, real-time assessment of the economy.

The Census Bureau gathers data from many of these leading firms on a monthly basis as input into its monthly economic indicators. Participation in the monthly programs is voluntary, a characteristic of the programs that goes back over 60 years. Unfortunately, for a host of reasons, not all companies elect to participate.

For example, of the companies on the most recent Fortune 500 list, 306 qualify to report on one or more of the Census Bureau's monthly reports on the retail, wholesale, or manufacturing sectors. Yet, 87 of the 306 choose not to provide data or provide only partial data in the Census Bureau's monthly collection programs. We need to build closer relationships between the Bureau and the Nation's top companies with the aim of increasing company participation in the surveys that most directly reveal the state of the economy.

Mr. Chairman, Mr. Vice Chairman, we have the best statistical system in the world. BEA and Census Bureau data tell us where the economy has been and where it is going. Decision makers at every level use our indicators to chart their course.

But we can improve. We can speed up trade data by 20 days, which is important in its own right and will give us a more accurate read of GDP. We can measure e-business and the services sector, which have not received attention commensurate with their role in the economy. And we can establish a firm statistical foundation with the Economic Census and the American Community Survey. But there is no question that these improvements will require adequate funding. While I recognize that budget challenges are great this year, I am hopeful we will be able to work with Congress to increase funding for vital economic measures as the appropriations bill moves forward.

I thank you very much for inviting me here today, and I would be happy to take questions.

PREPARED STATEMENT OF DR. WILLIAM D. NORDHAUS, STERLING PROFESSOR OF ECONOMICS, YALE UNIVERSITY; CHAIRMAN, BUREAU OF ECONOMIC ANALYSIS ADVISORY COMMITTEE

I am delighted to have the opportunity to discuss some of the important questions regarding the state of federal economic statistics in our rapidly evolving economy. Improving our nation's statistical infrastructure is an important goal. The emergence of new technologies and the growing importance of technologically advanced service industries have created new data-collection and measurement challenges for our statistical agencies. I will review some of the major issues and make a handful of recommendations for improvements.

I might begin with a word of background on my interest in economic statistics. For most of the last decade, I served on the National Academy of Science's Committee on National Statistics. This body is charged "to select and study statistical topics to improve the effectiveness of the federal statistical system." Its reports have reviewed such issues as the definition of poverty, the American Community Survey, better measures of the cost of living, and augmented accounting.

I am also currently chair of the Advisory Committee of the Bureau of Economic Analysis (BEA). This Committee works with the BEA to review priorities and make suggestions on technical issues to improve economic statistics. Recently, the BEA Advisory Committee held a "brainstorming session" of leading academic and business economists to consider improvements in the national economic accounts.[1]

Most recently, I have worked with the leadership of the American Economic Association to explore whether the AEA should have a standing committee in the area of economic statistics. The AEA decided that question in the affirmative and has just established the AEA Committee on Economic Statistics, of which I am the chair. The Committee is currently setting its agenda, but I am sure that it will be delighted to help the Joint Economic Committee and other committees

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[1] Bureau of Economic Analysis, *Survey of Current Business*, May 2002, "BEA's Strategic Plan for 2001-2005," with discussion by the BEA Advisory Committee and others.

of the Congress should they wish to call upon the AEA Committee for advice of matters of economic statistics.[2]

I emphasize that the remarks that I am making today are my own and in no way implicate any of the organizations just listed. I will, however, attempt to convey the broad consensus of professional economists on the importance of high-quality and timely statistics.

Good economic statistics are important because they are critical inputs into the decisions of public and private decision makers. Without good economic statistics, the Congress cannot make budgetary decisions informed by economic trends and the long-term outlook for surpluses or deficits; companies cannot plan their investments without good data on prices and quantities in their own markets; state and local governments cannot plan for roads, hospitals, and environmental quality without up-to-date demographic data; and households cannot make sound financial decisions without reliable information on the earnings of companies and the yields on alternative investments.

Conducting the fiscal affairs of state without good statistics is like flying blind.

The general condition of the federal statistical system is sound. But an evolving economy requires constantly improving our source data and sharpening our statistical tools. I will discuss give areas for improvement.

A. Maintain and Improve the Core National Income and Product Accounts (NIPA)

The current "core accounts" of the National Income and Product Accounts (NIPA) are an essential ingredient for analyzing U.S. economic conditions and trends. They illuminate trends in national saving and investment, per capita output and income, the return to capital, inflation, productivity, the shares of income going to different factors of production, international linkages, and the sources of economic growth. They are critical ingredients in budget projections of the Congressional Budget Office. When the core accounts go astray, so do budget projections and plans of the public and private sectors.

A recent report from the National Academy of Sciences summarized the central economic role of the national accounts:

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[2] The report of the AEA Advisory Committee on Economic Statistics along with the actions of the AEA Executive Committee are included in *American Economic Review*, May 2002.

> The modern national income and product accounts are among the great inventions of the twentieth century. Among other things, they are used to judge economic performance over time, to compare the economies of different nations, to measure a nation's saving and investment, and to track the business cycle. Much as satellites in space can show the weather across an entire continent, the national accounts can give an overall picture of the state of the economy.[3]

Continuing to develop and improve the core accounts should clearly be the top priority for BEA. The BEA strategic plan contains many worthwhile elements for improving the core accounts.[4] Among the most important items on the agenda are the following: development of a full set of integrated income and wealth accounts (discussed below); more timely publication of the input-output data; continuing the development of the industry accounts with a full set of comparable historical data; improvement of source data with particular attention to the income side of the accounts and particularly to compensation; and improved measurement of real output in those sectors where price indexes are deficient (discussed below).

One area of continuing importance for the national statistical system is to produce data that will improve our understanding and therefore aid our managing of business cycles. When the Congress or the Federal Reserve weigh programs to deal with recessions, they need timely and reliable data on the state of the economy.

Aside from the improvements in the BEA strategic plan, I have one additional personal suggestion, which is the development of an experimental index of monthly GDP data.

BEA prepares estimates for the major output and income series averaged on a quarterly and annual basis. I would recommend that BEA consider developing the major income and product accounts on a monthly basis. Indeed, at present many components of the accounts (incomes, production, and prices) are already available on a monthly basis. Consumption, government spending, inventory changes, foreign trade, labor market data, and virtually all major income measures except profits are available on a monthly basis. It would appear relatively

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[3] *Nature's Numbers: Expanding the National Economic Accounts to Include the Environment*, National Academy Press, Washington, D.C., 2000.

[4] See "BEA's Preliminary Strategic Plan for 2001–2005," *Survey of Current Business*, December 2001.

straightforward to develop procedures for estimating or interpolating the missing variables on a monthly basis.

It should be emphasized that the only current monthly output measure, the Federal Reserve's monthly industrial production index, is unrepresentative of the economy in that it covers less than 20 percent of GDP and omits the entire service and trade sectors.

There are many reasons for developing monthly GDP, but one important reason is that it will provide more timely and useful information on the pattern of business-cycle movements. The business cycle of 2001 provides a useful illustration. Most economic data indicated that the economy was slowing from early 2001 and that the trauma of 9/11 had accelerated the downturn. Forecasts in late September and October 2001 were extremely gloomy. Data on sensitive sectors, such as travel and finance, tended to reinforce the gloom.

Because of the peculiar shape and timing of the 9/11 aftermath, the quarterly GDP data were unhelpful for forecasters and policymakers. The sharpest economic reaction to 9/11 probably came in late September and early October 2001, but this would have affected only one-sixth of the data for the third quarter. The major impact on GDP, if there were one, would be seen in the fourth quarter, whose advance and incomplete estimates were not available until January 30, 2002. Indeed, it was not until the preliminary estimates became available on February 28, 2002 that it became clear that real economic growth for the fourth quarter of 2002 was safely in the positive range. The growth rate for the second half of 2001 was actually positive, and the 2001 recession appears to be the mildest in post-war history.

Without the actual monthly GDP data, we cannot know how the pattern of output in late 2001 would have looked. But it is surely possible that by November 2001 discerning eyes would have suspected that the downturn was very mild and that the recession had essentially come to an end.

This discussion provides just one example of why it would be useful to develop monthly GDP statistics on an experimental basis.

The recommendations in this area are the following:

Recommendation 1. The first priority for the BEA should be to improve the coverage, detail, quality, and timeliness of the core accounts. The BEA strategic plan contains many elements that are essential for continued improvements in the NIPAs.

Recommendation 2. BEA should work to develop an experimental monthly GDP series.

B. Strengthen Source Data for Our Statistical System

Federal statistical agencies produce a wealth of statistics each month on output, productivity, incomes, foreign trade, inflation, the labor market, and many other facets of our economic life. These summary statistics give a misleading impression about how easy it is to produce reliable, comprehensive, and timely data.

But the fact is that the numbers we read about each month – the GDP, the inflation rate, or the balance of trade – are just the visible tips of the statistical icebergs. Below the surface lie vast volumes of source data from all corners of the economy. Much of this source data is collected by the Census Bureau through regular or special surveys of households and firms, but other parts are collected by BEA, by BLS, by the Federal Reserve, and by other federal agencies. Our national accounts depend crucially on accurate, timely, and comprehensive source data.

The United States has made major investments in improved source data, and these investments have paid off in more timely and reliable statistics. But at present there are major gaps. Among the most important needs are improvements in income data, more timely and reliable data on international trade and inventories, and more timely input-output data. Additionally, we need improved measures of nominal output and prices in many service sectors, particularly for technologically advanced business services like software and hard-to-measure areas such as medical care. In the next section, I will provide two other important areas where improvements in source data are necessary in the area of productivity statistics.

One final example of improved source data is the American Community Survey (ACS). This is an on-going survey that can replace the long form in the Decennial Census. It will provide demographic, housing, social, and economic data updated every year that can be compared across states, communities, and population groups; it will be much more useful than the infrequent and quickly out-of-date information from the Decennial Census. The ACS will help governments at all levels track the size and characteristics of the population in a more timely and accurate way and thereby aid better and more efficient program design.

I will briefly mention the Administration's data sharing proposal that was announced earlier this month. This proposal is a step to solving some of the difficulties that arise from our decentralized federal statistical system. The proposal combines two elements: First, it allows BEA, Census, and BLS to share business data for statistical purposes. Second, it clarifies and strengthens safeguards on confidentiality of information provided to government agencies.

I will address only the first element, the guidelines on data sharing. It has long been recognized that the decentralized nature of the federal statistical system contains hurdles to the most efficient use of the statistical information that the government collects. Data sharing among the three agencies will provide the opportunity to get both more timely and more accurate data on production, sales, employment, and industry. For example, data sharing will allow BEA to derive more accurate quarterly data on shipments and other variables at a detailed industry level. It is an excellent way to improve the quality of federal statistics with little, no, or even negative cost.

I recognize that statistical programs are not free. The federal government currently invests substantial sums in its statistical programs. I believe, however, that on the whole these additional investments would have great value to the nation. To take just one example, consider the value of more timely and reliable data on real GDP and inflation. These data provide early "economic storm warnings" in the same way that improved hurricane forecasting does. By allowing the Federal Reserve and the Congress to act sooner and more appropriately to combat business cycles, high-quality economic statistics can have a payoff in the billions and billions of dollars.

Recommendation 3. Reliable statistics on the economy depend upon improvements in the source data that underlie the statistics.

Recommendation 4. Enhanced data sharing among statistical agencies will improve the timeliness and accuracy of federal economic statistics.

C. Productivity Statistics

The previous section discussed the need for improved source data in general, and this can be illustrated for the important area of productivity. Productivity growth is quite correctly one of the most closely watched of important economic statistics. As one economist put it, "In the long run, productivity isn't everything. But it's almost everything."

Figure 1 shows the trend in labor productivity for the business sector through the first quarter of 2002. It is clear that there was a major productivity upsurge in the middle 1990s. The growth in productivity per hour since 1996 has been 2.8 percent per year, which is slightly higher than the average for the entire postwar period (1948:1-2002:1) of 2.5 percent per year.

This all looks so simple. But productivity statistics are in fact a very complicated business. Productivity data are again but the tip of a very large statistical and methodological iceberg. They involve a variety of different source and analytical data and sophisticated techniques for combining the data. They are a joint product of BLS, BEA, Census, the Federal Reserve, and other agencies. The last decade has seen major improvements in both the source data for calculating productivity as well as use of better techniques. But, as in most things, we can do better.

I would point to two areas where improvements are both needed and underway: better hours data and better price data.

Hours

One of the most important components of productivity statistics is hours worked. These data are collected in different surveys, but the underlying data are probably unreliable. One problem is that relatively little effort is devoted to collecting hours data. Another problem is that we have only the scantiest data on the hours of salaried workers (as compared to those paid by the hour). As we have moved to a service economy, more and more workers are salaried. We hear complaints about "the overworked American" and the "time crunch" of professional workers, but these remain primarily anecdotes.

Fortunately, the U.S. is about to undertake a fundamentally new and important survey to obtain better data on hours worked. The BLS will be fielding the American Time Use Survey starting next year.[5] It

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[5] The major components can be found at http://www.bls.gov/tus/home.htm . This project was endorsed by participants in a recent National Academy of

will not only provide much better data on hours worked for the productivity statistics, but it will also provide a wealth of data on how the population spends its most precious resource – its time.

I hope the Committee will review the new time-use survey. I believe that this is the single most important statistical initiative of the Federal government currently underway.

Improved price indexes

Another area where improvements are needed is the construction of improved price indexes. High quality price indexes are critical to many areas. The Congress knows that, because the tax and social security systems are indexed to the CPI, measurement errors in the CPI cast a long fiscal shadow.

But accurate price indexes are also critical for measuring real output. It is not generally recognized that BEA never actually measures "real output" or "real GDP." Rather, BEA takes dollar measures and deflates them by price indexes. The quality of the real output measures, which are the numerators of productivity measures, are likely to be defective if the price indexes used to construct them are inaccurate.

The price statistics for our productivity measures, as well as for most other series, are designed and collected by the Bureau of Labor Statistics (BLS). While the BLS has come under serious criticism for its price statistics, it has taken significant strides to improve both its methodologies and its underlying price data over the last decade. These steps include moving away from fixed-weight price indexes, updating the basket of goods more frequently, and undertaking more detailed studies (including hedonic techniques) for capturing quality change.

I believe the BLS has been moving in the right direction, but it may have been overly cautious in both the pace and direction of introducing new techniques. Among the potential activities, I would recommend that BLS and BEA continue to develop realistic price indexes for those areas of the accounts where input-type measures are used (such as in financial services, business services, and health care). Additionally, BLS should continue to move ahead in improving measures of quality change and in including new products, particularly with the introduction of hedonic techniques where appropriate.[6] Finally, BLS has been

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Sciences workshop; see *Measurement of and Research on Time Use: Report of a Workshop*, Shelly van Ploeg, Julie DaVanzo, William Nordhaus, Frank Samaniego, Joseph Altonji, and Norman Bradburn, eds., National Academy of Science Press, 2000. Available at http://www.nap.edu/catalog/9866.html.

[6] A useful recent review of issues and potential improvements in constructing price indexes is contained in Charles Schultze and Christopher Mackie, eds.,

hamstrung in its use of some techniques because it does not revise its core measures. I would recommend that BLS develop new experimental approaches for price indexes and consider revision of both experimental and core measures.

Recommendation 5. The new American Time Use Survey (ATUS) of the BLS will fill a critical statistical gap by providing more accurate data on hours worked as well as a broad perspective on how the population spends its time. This survey deserves strong Congressional and public support.

Recommendation 6. BLS and BEA should continue their efforts to improve the price data underlying the consumer price index, the producer price index, and the national accounts. Special efforts should be made to capture in price indexes the full range of new and improved goods and services.

D. National Savings and Investment

We routinely hear that the nation is investing too little and that the personal savings rate is woefully low. For example, BEA reports that the personal saving rate for 2001 was only 1½ percent of disposable income. For 2000, net domestic investment was only 8½ percent of net domestic product. These are thought to be too low for our economic health.

Or are they? The customary definitions of net saving and investment rely on extremely narrow definitions of these entities. The definitions are appropriate for their context, which is the core national income and product accounts. But they are definitely misleading for measuring total social saving and investment. To get the true picture, we need a more complete accounting system.

A more complete accounting would look very different. The first point involves conceptual difficulties in measuring savings. The traditional product-account (or NIPA) measure of saving in the national income accounts is the difference between current income and consumption. The NIPA definition contrasts with the asset-account

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At What Price?: Conceptualizing and Measuring Cost-of-Living and Price Indexes, National Academy Press, Washington, D.C., 2001.

definition, which is the change in real net wealth. The difference between the production-account and the asset-account definitions became particularly large during the major stock-market boom of the 1980s and 1990s.

Figure 2, derived from data prepared by the BEA and the Federal Reserve, compares the narrow NIPA (production-account) measure of savings with a comprehensive (asset-account) measure of household saving. The comprehensive measure includes savings in pensions and capital gains on equities. The narrow measure showed a low rate, which declined from the 1980s to the 1990s. The comprehensive measure showed a very healthy savings rate of 25 percent for the 1990s. The latter measure better corresponds to the flush of wealth that households actually experienced, and indeed it probably explains the decline in the narrowly defined savings rate.

While we have no comparable figures through early 2002, it is certain that the comprehensive savings rate has been quite negative over the last two years as $7 trillion of paper wealth went up in the smoke of terrorism, recession, dot-com crashes, and phony earnings reports.

A second set of issues concerns the narrowness of current product-account measures of investment. It is not generally recognized that current measures of investment cover an extremely limited sphere, including only investment in some tangible capital (such as factories, equipment, inventories, and houses) along with software. Current concepts omit a wide variety of investment-type activities. Some important omissions are the acquisition of tangible capital such as consumer durables by households; development of land; expenditures for research and development; expenditures for education; the opportunity costs of students' time; the opportunity cost of training; and much of the nation's expenditures for health.

When I first penned these words, I added, "It must be hard to explain to a Secretary of Commerce why the purchase of a factory to produce a new drug is investment while the expenditure on research on that drug is not; or why building a new library is investment while purchasing new books for the shelves is not." I hope that Secretary Evans will agree that the current treatment is too narrow and will work to implement the recommendations on developing National Economic Accounts below.

We have only the sketchiest of estimates of how important the omission of intangible and nonmarket investments are, but estimates by Robert Eisner indicated that the standard definition might underestimate the true national investment rate by as much as 500 percent. Recent studies of Dale Jorgenson and Barbara Fraumeni lead to similar conclusions.

These observations lead to a major recommendation for improving the nation's statistical system. We need to move beyond the National Income and Product Accounts to a set of National Economic Accounts. These would involve linked accounts that include not only production and income but also linked accounts that include assets, capital, accumulation, and wealth. The first step would be a complete set of wealth and asset accounts.

Recommendation 7. BEA should work with the Federal Reserve to develop a full set of asset and wealth accounts.

Recommendation 8. BEA should develop a full set of linked National Economic Accounts that include production, income, consumption, accumulation, and wealth.

E. Investment and Portfolio Allocation and Improved Private Information

Given the current economic climate, it is important to spend a moment considering the importance of *private statistics*. Many of the most important indicators used by both government and the private sector rely upon statistics that are generated and published by the private sector. These include most measures for the corporate sector, and particularly those relating to the performance of publicly owned companies.

Private statistics are critical for the decisions of both the public and private sectors. Government revenue forecasts depend upon the quality of the data on compensation and profits. At present, our economic statistics cannot separate out wages and salaries from the gains on exercised stock options. Moreover, as many individuals and pension funds have learned over the last two years, their financial investments have been based on company data that have sometimes proved unreliable. More generally, one of the key ingredients of an efficient market economy is accurate information about the profitability of investments in different sectors.

Like many others, I am particularly concerned about the accuracy of company financial reports. Imagine that Olympic competitors were allowed to bring their own stopwatches or yardsticks to measure their performance. You would surely be skeptical about the results. Yet this is just the system we use to measure corporate earnings.

How important is the "creative accounting" to the aggregate profit statistics? Figure 3 below – based on data from BEA, the Federal Reserve, and Standard and Poor's – suggests that the aggregate numbers may have been affected by faulty accounts. This shows the ratio of financial earnings as reported by the S&P 500 to total corporate earnings as determined by the BEA. The ratio became unusually divergent in the last four years. The peak in S&P earnings lagged behind the peak in NIPA earnings in the late 1990s, probably because companies were "managing" their earnings (that is, preventing an accounting decline in earnings). The speedup of revenues or delay in expenses generally come out in the statistical wash, at a later time.

There are many approaches to providing better accounting data, but I would suggest that the primary need is for a uniform stopwatch and yardstick to measure corporate performance – one that uses a standardized set of rules for measuring income and expenses, along with clear definitions of capital and current accounts.

One simple and overlooked set of standardized accounts already exists. It is the U.S. corporation tax system. Under U.S. law and detailed IRS regulations, all U.S. companies are required to follow a uniform set of guidelines and definitions for every category of income and expense.

I would therefore recommend that companies publish their tax returns. Additionally, companies should reconcile their financial and tax accounts. By examining company tax returns, analysts can get measures of the different financial components of a firm's performance that follow a standard set of rules.

Recommendation 9. In order to improve the quality of information about publicly help corporations, corporations should publish their tax returns and reconcile their financial reports with their tax returns.

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In closing, I welcome this occasion to review the state of federal statistics. The United States can be justifiably proud of its federal statistical system. It combines high quality statistics, good utilization of current best-practice statistical techniques, and professional management. But the system needs to adapt to the changing environment. I believe the recommendations laid out here will help improve the statistical basis for public and private decisions.

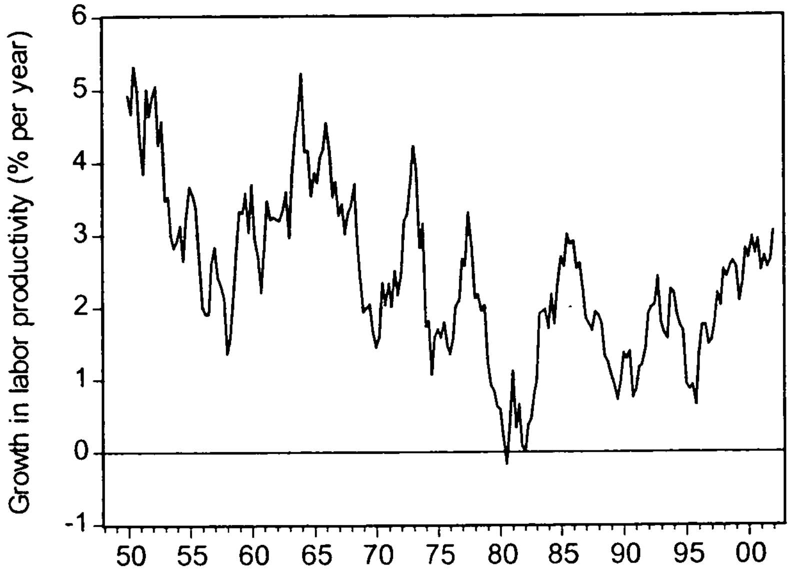

Figure 1. Growth of Labor Productivity in the Business Sector

The figure shows the 3-year moving average of the growth rate of labor productivity.

Source: Bureau of Labor Statistics based primarily on data from BLS and BEA.

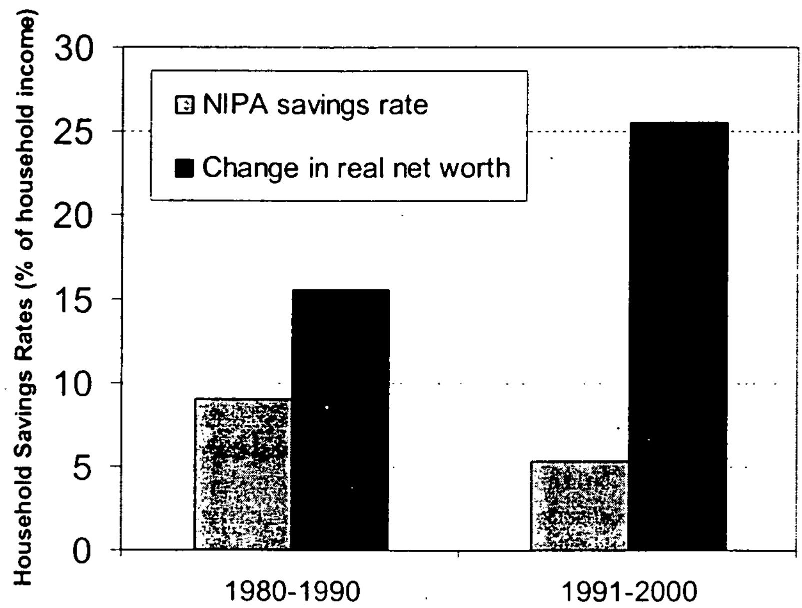

Figure 2. Alternative Measures of Household Saving

The "NIPA definition" is the usual measure of the savings rate derived from the production accounts. The figures denoted "Change in real net worth" include all sources of household saving, including prominently capital gains on equities during the great bull market of the 1980s and 1990s.

Source: Data are primarily from the BEA and the Federal Reserve as published in Maria G. Perozek and Marshall B. Reinsdorf, "Alternative Measures of Personal Saving," Survey of Current Business, April 2002, pp. 13-24, available at www.bea.doc.gov/bea/ARTICLES/2002/04April/0402PersonalSaving.pdf .

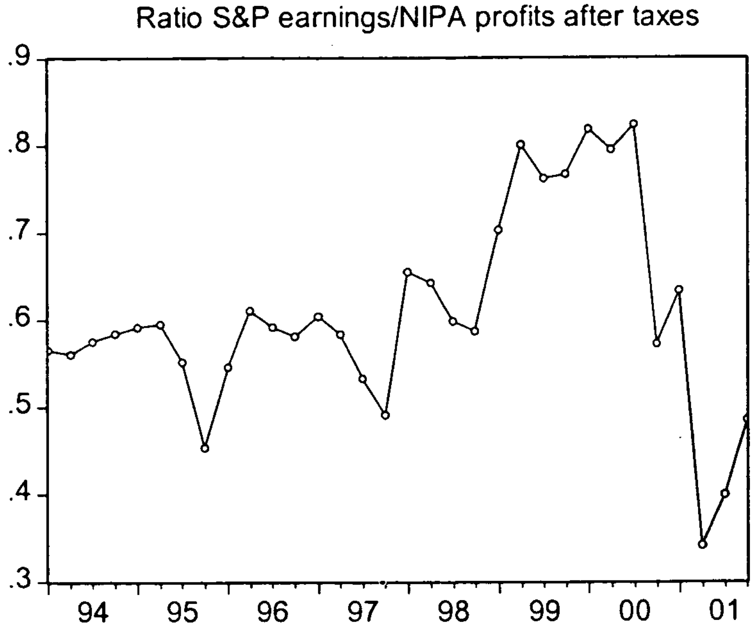

Figure 3. Ratio of Reported Earnings of S&P 500 to NIPA Profits After Taxes for U.S. Corporations

S&P profits averaged about 60 percent of total profits in the mid-1990s. In the late 1990s and early 2000s, the relationship became extremely erratic. The shaded region is the 2001 recession.

Source: William Nordhaus, "Output, Profits, and Financial Markets in the 2001 Recession," forthcoming, *Brookings Papers on Economic Activity*, 2002:1. Data are from the BEA, Standard and Poor's, and the Federal Reserve Board.

Summary Table of Recommendations

Recommendation 1. The first priority for the BEA is continuing to improve the coverage, detail, quality, and timeliness of the core accounts. The BEA strategic plan contains many elements that are essential for continued improvements in the NIPAs.

Recommendation 2. BEA should work to develop an experimental monthly GDP series.

Recommendation 3. Reliable statistics on the economy depend upon improvements in the source data that underlie the statistics.

Recommendation 4. Enhanced data sharing among statistical agencies will improve the timeliness and accuracy of federal economic statistics.

Recommendation 5. The new American Time Use Survey (ATUS) of the BLS will fill a critical statistical gap by providing more accurate data on hours worked as well as a broad perspective on how the population spends its time. This survey deserves strong Congressional and public support.

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Recommendation 7. BEA should work with the Federal Reserve to develop a full set of asset and wealth accounts.

Recommendation 8. BEA should develop a full set of linked National Economic Accounts that include production, income, consumption, accumulation, and wealth.

Recommendation 9. In order to improve the quality of information about publicly help corporations, corporations should publish their tax returns and reconcile their financial reports with their tax returns.

IT and Federal Revenues

Economic Benefits of IT Account for $515 Billion of Anticipated Revenues Over Next Decade

CBO's budget estimates of January 2002 forecast a unified budget surplus of $2.5 trillion over the fiscal years 2003-2012. Key to these estimates are projections of future government revenues, which are derived from assumptions about economic growth, productivity growth, interest rates and other factors. Productivity growth is a key factor in revenue estimates. The information technology (IT) sector has long been regarded as a major contributor to rising productivity growth rates, through efficiencies derived from use of the Internet, e-mail, fax machines and cellular telephones, along with major advances in how these products are produced. Below is a look at how integral the economic effects of these innovations are to surplus estimates.

Nonfarm business labor productivity growth rates have increased considerably in recent years, from an average annual rate of 1.5 percent for the 1974-95 period to 2.4 percent from 1996 through 2001. In its January 2000 Budget and Economic Outlook, CBO attributed roughly half of this acceleration to IT use and production and now forecasts a 2.2 percent potential labor productivity growth rate for the years 2002 through 2012. Although they forecast labor productivity growth to slow slightly by 0.2 percentage points, these estimates assume that most of the acceleration in productivity growth rates will hold over the long term.

If we assume that CBO's economic assumptions are correct, productivity growth over the next decade will grow at an average annual rate 0.7 percentage points faster than during the 1974-95 period. CBO has previously credited IT production and use with generating one half of that acceleration, which would equal 0.35 percentage points under current assumptions. Using CBO's table to show how changes in economic conditions can affect budget estimates, productivity gains from the IT sector account for $614 billion of the surplus.

Revenue Change from 0.35 Percentage Point Change in Average Annual Nonfarm Business Labor Productivity Growth, 2003-2012 = $515 billion

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
Change in Surplus ($Billions)	7.9	15.8	23.6	31.5	42	52.5	63	76.1	91.9	110.3	515

SUBMISSION FOR THE RECORD

STATEMENT OF HARRY FREEMAN, CHAIR, THE MARK TWAIN INSTITUTE

My name is Harry Freeman. I chair a small think tank concerned with economics, and particularly with statistics. The Mark Twain Institute is devoted to improving economic statistics.

Prior to founding the Institute in 1997, I spent 15 years at American Express Company, in later years as Executive Vice President of the Company. While at American Express Company, I led the program to include trade in services (as distinguished from trade in goods) in U.S. trade statistics. I also led the U.S. business community effort to negotiate and implement the U.S.-Canada Free Trade Agreement, and the business coalition that participated in the conclusion and implementation of the Uruguay Round of the General Agreement on Tariffs and Trade, which secured full treatment for U.S. services trade. It seemed only fitting that I also founded the Coalition for Services Industries.

Throughout my career, I received outstanding support and cooperation from the official U.S. trade statistics agencies: the Bureau of Economic Analysis (BEA) and the Census Bureau. Their economists and statisticians were not only talented, they anticipated the needs of the business community and became and remain the world leaders in terms of statistical coverage of trade in services.

Good, reliable statistics are crucial. To keep pace with the rapid increase in the rate of change in the global economy, BEA and Census need more staff. Indeed, they need more staff just to keep even. Thus, the news that the Senate Appropriations Committee provided only a flat increase to cover salaries came as a shock to me and others who rely on these agencies for good, accurate and current statistics.

The Institute commissioned the attached paper that explains just why Congress should increase funding for BEA and Census. We need improvements in our data collection systems. We need to expand our global statistical coverage. In strongly urge you to support the increased funding for statistical improvements sought by the BEA and Census.

Why Congress Should Fund Better Services Data

As part of the President's Fiscal Year 2003 budget submission to Congress, the Commerce Department's Bureaus of Economic Analysis and the Census have requested money to fund significant improvements in U.S. data collection, including services data. The President requests $69.8 million for BEA in FY 2003 to continue current programs and fund three new initiatives. In addition, the President requests $23.7 million for Census to improve data collection, much of it directly related to services. Congress should approve these requests.

Much Rides on Economic Data

Analysts, policy makers, business leaders, and individuals use economic data provided by the Federal Government to understand the dynamics of the U.S. economy and make important investment and spending decisions based on that understanding. Policy makers, including those in the Federal Reserve, use these data to determine monetary, fiscal, trade and regulatory policy. Data are also critical to government spending programs and plans. For example, real gross domestic product (GDP) estimates and the inflation rate are used to calculate Federal tax and spending plans. They determine the projected size of the Federal budget deficit, which in turn affects government spending. Government regional data are used to allocate over $120 billion in funds for state programs.

With So Much At Stake, the Data Need to Be Accurate and Complete

The data upon which so much rides need to reflect accurately the U.S. economy. During turning points in the economy, the accuracy and timeliness of data are especially critical. Fiscal and monetary policy makers must have access to accurate, timely data to devise prescriptions that will be most useful in correcting the path of the economy. Clearly, good data are necessary, but they are increasingly hard to come by.

Data collection must keep pace with changes in the economy's complexity, growth and structure. Over the last 40 years, services-producing sectors have been playing an ever-growing role in the economy. In 1960, goods-producing sectors (agriculture, mining, construction, manufacturing) accounted for 38 percent of GDP, and services-producing sectors (transportation -- including travel and tourism -- and public utilities; wholesale trade; retail trade; finance, insurance, and real estate; services, and government) accounted for 62 percent. By 2000, goods-producing sectors accounted for 23 percent, and services-producing sectors, 77 percent. The importance of the services-producing sectors is even more apparent from the perspective of employment and trade. In 2001, goods-producing sectors employed 21 percent of the labor force, compared to 79 percent in services-producing sectors. In 2001, services exports reached nearly $300 billion and the United States recorded a surplus in services trade of $77 billion.

Despite this important shift, the chief economic indicators relied upon by policy makers remain largely goods-focused. Indeed, it was not until 1994 that services trade data were included in the U.S. trade data. Other services data are collected, and the shift in data classification from the Standard Industrial Classification system to the North American Industrial Classification System does better delineate services sectors (of course, this on-going effort requires funding as well). However, important services data needed for appropriate policy making remains uncollected. As a result, for example, the Council of Economic Advisers noted that July 2000 GDP data had to be revised three times over seven months because in large part the government lacked quarterly information on software investment. "Such revisions lead to uncertainty for both government and private decision makers, which can cause costly delays."[1] Much of the uncertainty about the causes of the recent slowdown in the economy has been attributed to the lack of current data on the services industries. It must be noted that the paucity of services data is not due to any fault of the Census Bureau, the Bureau of Economic Analysis or the Bureau of Labor Statistics: their statisticians do a remarkable job with the budgets and staffs they have. We must remember, however, that as the economy grows, our data infrastructure support team must growth with it.

Until we have a fuller and more timely understanding of how the services sectors of the U.S. economy function, policy makers risk promoting policies that may not in fact be in the longer-run best economic interests of the economy. Similarly, consumers and businesses will make decisions that are potentially ill-informed.

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[1] Council of Economic Advisers, *Economic Report of the President* (Washington, DC: U.S. Government Printing Office, February 2002), p. 25.

What Is the Solution?

It is therefore critical that Congress fund data series, and in particular services data series, that will permit policy makers, businesses, analysts and individuals to make better-informed spending and investment decisions. Ten items identified by the Bureaus of Economic Analysis and the Census and other agencies, including the Federal Reserve Board, concerned about U.S. data require immediate attention:

1. *Issue a Quarterly Services Indicator ($3.0 million).* Despite the increased importance of services to the American economy, no principal economic indicator exists for the services sectors sensitive to changes in the business cycle, including the information, communications and technology-intensive services industries that have driven the recent volatility in our economy. In contrast, the Census Bureau currently conducts 13 surveys, including monthly series covering retail and wholesale trade, residential construction, and merchandise trade, and a quarterly series on corporate profits. These series track current economic activity, are closely followed and widely used by policy makers in the public and private sectors, and move financial markets. A new quarterly services-specific indicator will improve the government's estimates of gross domestic product and provide policy makers with current information on the performance of key information, communication, and technology-intensive industries as well as other industries sensitive to changes in the business cycle. It will permit the government to publish new GDP data more rapidly. It will improve the government's measures of productivity for the business and non-farm business sectors. The importance of these measures is noted by Federal Reserve Chairman Alan Greenspan: "Crucial to the assessment of the [economic] outlook . . . is the role of technological change and productivity in shaping near-term cyclical forces as well as long-term sustainable growth."[2]

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[2] Alan Greenspan, "Federal Reserve Board's semiannual monetary policy report to the Congress," before the Committee on Financial Services, U.S. House of Representatives, February 13, 2001.

2. *Collect product-specific services data ($1.5 million).* The Census Bureau collects extensive time-series data on the products made by the 474 industries covered in the manufacturing sector (approximately 8,000 products), which other agencies use to develop highly-regarded price indices and measures of real output, real GDP, and productivity of those industries. However, it collects very little product data for the 424 identified service industries. As a result, the quality of the corresponding estimates for service sector industries needs improvement and, hence, the government's funding request. For example, the industry productivity series currently covers only 40 percent of the non-goods producing service sectors of the economy. This means that industry productivity measures do not exist for over 35 percent of the U.S. economy! New data on the specific products sold by fast-growing and rapidly-changing service industries are required to ensure that the government's national economic accounts accurately measure today's economy.

3. *Collect value-added data for services sectors ($1.0 million).* Census collects very little data on purchased services, purchased materials, and other intermediate inputs for services industries, data needed for measuring value-added (i.e., each industry's contribution to GDP) in these important industries. The lack of these data makes it difficult for policy makers to calculate the value-added contribution of services industries, negatively affecting the quality of the government's input-output tables and its multifactor productivity measures. Improvements in these data measures are essential to produce higher-quality estimates of economic growth, real output, prices, and productivity.

4. *Collect detailed business expenditure data ($2.2 million).* Census needs to collect annual information on business expenditures on hardware, software and communications services to help assess future productivity and economic growth prospects.

5. *Collect annual data for the entire wholesale trade sector ($2.0 million).* Currently, Census collects information about manufacturers' sales offices and electronic markets,

agents and brokers only once every five years, despite the fact that these distributors represent $2 trillion in receipts and $50 billion in inventories. Comprehensive and timely information on all wholesale activity would provide the government with important new source data that will significantly improve quarterly estimates of GDP.

6. *Implement a supply chain survey ($1.0 million).* This survey would document how e-business processes are shifting functions and economic activity among manufacturers, wholesalers, retailers, and transportation services and logistics providers.

7. *Further improve U.S. international trade statistics ($13.0 million).* Census needs to expand and improve its export reporting system by accelerating the release of trade statistics, including those reflecting services trade, by 20 days, so that they would be released within one month of the date they occurred. It also needs to improve the coverage of export statistics by ensuring that exporters understand their reporting responsibilities.

8. *Generate more timely economic data ($4.8 million).* BEA must accelerate the release of its economic statistics to meet an increasing demand from data users, especially during periods of economic uncertainty. Because these data form the basis for critical decisions that affect all Americans, it is essential that they be available to government and private decision makers as quickly as possible. More timely data are required for monthly international trade in goods and services (working closely with Census, see item 7 above).

9. *Upgrade Statistical Processing Systems ($3.6 million).* As the economy grows and changes and new data are required to describe it accurately, the statistical processing systems that produce and disseminate the data need to be current. Unfortunately, the systems now in use are a patchwork of outdated and inefficient programs that have not kept pace with the increased volume and complexity of the computations involved. Further work needs to be done to update these systems, and to enable BEA to receive electronic reporting for international surveys and to

develop new data dissemination options, including the Internet.

10. *Implement fully new data classification measures ($2.3 million).* As noted above, the United States is making an important shift in the way it classifies data. The North American Industry Classification System will better reflect the role services and other industries play in the U.S. economy. BEA must integrate the diverse and inconsistent data collected and produced by other agencies into a relevant and consistent set of economic accounts. This is a complex and time-consuming process that requires new funding; otherwise, the full benefits of the new classifications will not be realized.

The Bureau of the Census budget submission suggests that the lack of more reliable estimates of economic growth could have serious ramifications: a 0.1 percent correction in the growth rate in year one translates into a $200 billion change in the federal budget projections for year 10. In addition to a better understanding of where the economy is heading, improved services statistics will benefit public and private analysts in understanding important cyclical components of the U.S. economy by providing them with the data they need for better research, and the information they need to negotiate specific commitments in trade negotiations. Private-sector support for these initiatives is also important. The private sector has as much to gain from better services data as government policy makers.

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