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MAINTAINING THE QUALITY OF
ECONOMIC DATA

A STUDY

PREPARED FOR THE USE OF THE
JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES



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(II)

LETTERS OF TRANSMITTAL

NOVEMBER 23, 1981.

To the Members of the Joint Economic Committee:

I transmit a study entitled "Maintaining the Quality of Economic Data," which was prepared by Dr. Courtenay Slater, president of CEC Associates, Inc., at my request. Dr. Slater was formerly Chief Economist at the Department of Commerce and, earlier, Senior Economist at the Joint Economic Committee.

The study documents the serious decline in the coverage, quality and timeliness of the national income accounts on which economic policy decisions are necessarily based, and makes specific policy recommendations.

I commend this report to members of the committee.

Sincerely,

HENRY S. REUSS,
Chairman, Joint Economic Committee.

NOVEMBER 19, 1981.

HON. HENRY S. REUSS,
*Chairman, Joint Economic Committee,
Congress of the United States,
Washington, D.C.*

DEAR MR. CHAIRMAN: I transmit a study entitled "Maintaining the Quality of Economic Data," which was prepared by Dr. Courtenay Slater, president, CEC Associates, Inc., under contract with the Joint Economic Committee.

The views expressed in this study are those of the author and do not necessarily represent the views of the Joint Economic Committee or its members.

Sincerely,

JAMES K. GALBRAITH,
Executive Director, Joint Economic Committee.

(III)

FOREWORD

By Chairman Henry S. Reuss

The quality of the national income accounts is slipping. These accounts are a precious and vital national resource. They underlie every significant economic policy decision we make. And yet, for a period of years, neglect and misguided policy decisions have undermined their quality, through delays in data collections, reductions in sample sizes, and the elimination of certain vital data sources. Now, budget decisions threaten to transform gradual decline into calamity for the federal statistical system.

The consequences of inadequate economic data can be severe. For example, recent re-estimates show that plant and equipment spending from 1977 through 1979 was dramatically underestimated, due to the declining accuracy of a Bureau of Economic Analysis survey of business plant and equipment spending. Would we have made the same decisions in our recent congressional tax actions had we had accurate and timely data? Very likely we would not. And an endless future of such uncertain and possibly mistaken judgments stretches ahead of us unless we act now to restore the quality of our economic data.

This study points out several steps that could be taken at once by the Administration to arrest the decline in the quality of economic data. These steps include strengthening the statistical policy coordinating function now located in OMB, and resumption of the overview of statistical budgets which used to be pro-

vided to the Congress each year in the President's budget.

In addition, the study recommends that Congress enact legislation permitting the use by statistical agencies under strict confidentiality safeguards of the Census Bureau's Standard Statistical Establishment List, and so make possible the carrying out of essential statistical services at a cost which can be afforded in today's stringent budgetary climate.

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SUMMARY

The quality and timeliness of the gross national product (GNP) estimates and other major economic data are increasingly threatened by budgetary and personnel constraints in the numerous agencies which produce data entering into the GNP estimates, by the lack of systematic coordination among agencies, and by the lack of a central focus for Congressional oversight of the statistical program. If these trends continue it must be anticipated that the information available to policymakers about the economy will grow less accurate and less adequate to support intelligent economic policy choices.

Importance of the GNP Accounts. Estimates of the GNP and other components of the national income and product accounts are prepared by the Commerce Department's Bureau of Economic Analysis (BEA). Government analysts and policymakers utilize these estimates as the basic framework for assessing economic developments and forecasting future trends. Particular attention is paid to the first estimates of quarter-to-quarter change in the GNP and its major components. These early estimates, released about 15 working days after the end of each calendar quarter, provide the first systematic look at economic performance in the previous quarter.

Although the reliability of the GNP estimates generally has been quite good, there have been occasions during the past decade when inaccuracies in the early quarterly estimates have made it difficult for policymakers to make informed policy

decisions. The inventory component initially was seriously underestimated in 1973 and early 1974, disguising the unwanted inventory build-up at the onset of the 1974-75 recession. Efforts have since been undertaken to improve the inventory data. More recently, substantial underestimation of business fixed investment has been discovered, but funds for improving the underlying data collection program have not yet been made available, despite repeated requests by BEA. Nor have funds been provided for a number of other GNP data improvements recommended in an in-depth review conducted by the outside experts on the Creamer Committee. Recently, attention has shifted from planning for data improvements to struggling to maintain current data quality in the face of cutbacks and delays in the availability of source data.

Source Data for the GNP. The data underlying the GNP estimates are gathered by many agencies. Much of it, including heavily utilized data from tax and social security records, is collected primarily for use in carrying out the collecting agency's own program. This reliance on data which are collected anyway for other purposes greatly reduces the cost and reporting burden associated with preparation of the GNP accounts, but it also makes the accounts vulnerable to program changes or budget reductions in a large number of data gathering agencies.

The high standard of quality and timeliness maintained in

the GNP accounts reflects close cooperation among agencies in maintaining the underlying data sources, even during periods of budget reduction. Traditionally, the Statistical Policy Division of the Office of Management and Budget (OMB) played an important role in coordinating and overseeing this complex inter-agency statistical network. The Statistical Policy Division reviewed the budget requests and proposed data collection forms of all the major statistics-gathering agencies, thus providing the OMB Director with objective professional advice on program needs viewed on a government-wide basis.

In recent years this statistical policy coordination function has been progressively and seriously weakened. At the same time, inflation, personnel ceilings, budget cuts, and reporting burden reduction requirements have combined not only to impede improvements in the GNP accounts but to actually reduce the quality and timeliness of important source data. The currently proposed 12 percent across-the-board cuts in the previously planned FY 1982 budgets of civilian agencies threaten further serious data erosion.

Other Economic Statistics. This paper deals primarily with the GNP and related data, but similar or even more serious problems exist in other areas of the statistical program. Following widespread and prolonged discussion of the need to revise the consumer price index (CPI), the Bureau of Labor Statistics (BLS) has recently announced its intention to change the method by which housing costs are computed.

However, with further cutbacks now proposed for the BLS budget, it is difficult to see how adequate resources can be made available to properly carry out this revision. Other examples of the impact of budget limitations include the failure to plan for a mid-decade census, even though one is required by law, cutbacks in existing sources of data about State and local economies, and the proposed elimination of the 1982 census of agriculture.

Further and larger program cutbacks seem likely if the Administration's budget targets for the next several years are to be met. The Administration's budget projections show a cutback in real terms of over 40 percent in civilian agency programs. Although statistical programs make up only a small fraction of this budget category, there would seem to be little realistic possibility that statistical programs will escape their share of these cutbacks if this budget reduction program is in fact carried out. Budget constraints and inflation already have produced substantial declines in real resources available for statistical programs. The BEA budget, for example, is down about 13 percent in real terms from 1977 to 1982, and the Census Bureau budget for its ongoing programs of monthly, quarterly, and annual economic and demographic statistics is down about 12 percent, with a further 11 percent cut now proposed by the Administration.

Opportunities for Congressional Action. Although many committees take an interest in various aspects of the statistical

program, Congress lacks a systematic process for evaluating the quality of the program as a whole. Various components of the statistical budget are reviewed by different appropriations subcommittees, depending on the department or agency in which the particular program is located, leading to uncoordinated budget decisions. Various requirements for the gathering or use of statistics have been written into legislation with little consideration of cost, utility, or relationship to the statistical program as a whole.

In the present budget environment there would appear to be an urgent need for better coordination of statistical programs and their oversight, so that available budget resources are efficiently utilized and cuts are made where they will do the least program damage. Among the specific actions available to Congress are:

- o Efforts to persuade or require the Administration to strengthen the statistical policy coordination function by providing it with stronger leadership and increased staffing in its present location within OMB's Office of Information and Regulatory Affairs, by locating elsewhere in OMB separated from the regulatory affairs activities, or by establishing a separate Office of Statistical Policy outside of OMB;

- o Persuading or requiring OMB to resume the overview of statistical budgets once provided in the Special Analyses volume of the President's Budget each year or having the Congressional Budget Office prepare a similar overview;

o Enacting legislation to permit statistical agencies to make shared use of the Census Bureau's Standard Statistical Establishment List (SSEL), thereby permitting more efficient survey techniques, reducing both costs and public reporting burden, and providing for greater comparability among statistical series collected by different agencies.

1. SOURCE DATA FOR THE NATIONAL INCOME AND PRODUCT ACCOUNTS

Overview

The National Income and Product Accounts produced by the Commerce Department's Bureau of Economic Analysis (BEA) provide a comprehensive picture of national income and output. The first published estimates for each calendar quarter become available approximately 15 days after the quarter ends. These estimates subsequently are revised as additional information becomes available.

Government analysts and policymakers utilize these estimates as the basic framework for assessing economic developments and forecasting future trends. Although the regular quarterly availability of national account estimates dates only from 1947, use of a national accounting framework for economic analysis and decision-making has become so universal and so routine during the past 35 years that today it is difficult to imagine how analysis and policymaking would proceed in the absence of timely and reliable estimates of GNP and National Income.^{1/}

Estimates of quarter-to-quarter changes in the GNP and its major components: personal consumption, private investment, exports and imports, and government purchases are especially useful in assessing current economic conditions. It is the timely availability of detailed and conceptually-consistent information about each of these sectors and of companion estimates of national income by type (wages, profits, rents, interest, etc.) which makes the accounts such a valuable road map of the economy.

Related estimates of U. S. international transactions and of personal income by State and region, also available quarterly, are additional basic

elements of the national accounting system.

The history of national accounting in the United States has in general been one of improvement over time in the reliability, timeliness, and general utility of the estimates. The United States takes justifiable pride in its accounting system, which often has served as a model for other countries.

Source data

U.S. achievements in national accounting are all the more remarkable when it is recognized that to a very large degree the accounts are constructed from source data collected primarily for other uses. BEA itself collects relatively little data. Source data for the national accounts include general purpose statistics collected by the Census Bureau, the Bureau of Labor Statistics, and other statistical agencies; data collected primarily for their own use by the Internal Revenue Service (IRS), the Social Security Administration, and various Federal regulatory agencies; and data from a variety of private sources.

Reliance on data already being collected for other purposes allows great economy in production of the national income accounts and minimizes the reporting burden imposed on the public. It has also meant, however, that improvements in the national accounts have necessitated persuading or requiring a variety of agencies to make data available to BEA, to tabulate data in ways useful for the national accounts, and on occasion to add additional questions to data collection forms. As described in Chapter III, oversight of this cooperative effort historically was the responsibility of the Statistical Policy Division of the Office of Management and Budget (OMB).

Recent and prospective budget reductions are necessitating reductions in the quality, degree of detail, and timeliness of source data used for the national accounts as well as cutbacks in the level of activity at BEA itself. Because so many agencies are involved and because many budget changes are quite recent or still under consideration, the total impact of budget stringency on the national accounts is difficult to assess. Information presently available about the budgetary situation is described in Chapter II.

Need for GNP Data Improvement - The Creamer Report

The overall quality of the national accounts is high, but a number of specific areas where improvement appears needed have been identified in recent years. Recommendations for improvement have stressed the need for greater accuracy in the first quarterly estimates of the GNP, the estimates which attract the greatest public attention and which often are most heavily relied on by policymakers in assessing current economic conditions.

Concern about substantial revisions which occurred in the estimates for some quarters of 1971 and 1972 led to the establishment by the Statistical Policy Division of OMB in 1973 of an outside Advisory Committee on GNP Data Improvement, chaired by Daniel Creamer of the Conference Board. The report of this committee, often referred to as the Creamer Report, was published in 1977 and contains numerous detailed recommendations for improving the GNP source data.^{2/}

While work of the Creamer Committee was underway, a particularly troublesome inaccuracy in the preliminary GNP estimates occurred when the business inventory component initially was seriously underestimated in late 1973 and early 1974. This underestimate disguised the unwanted inventory

build-up at the onset of the 1974-1975 recession. This delay in recognizing the seriousness of the recession may help explain the failure to more quickly adopt an appropriate policy response. This well-publicized problem with the inventory data led to heightened interest in the Creamer Report and to initiation at the Census Bureau of a program of inventory data improvement.

Apart from the efforts to improve the inventory data, for which some additional funding was obtained, implementation of the Creamer Report's recommendations has largely been limited to those recommendations which had neither substantial budgetary impact nor required any new legislation. In a budget climate in which real resources for ongoing programs were being reduced, it has not been possible to obtain additional resources for data improvement and the impetus for improvement has given way to efforts simply to sustain present data quality.

Underestimation of Business Investment

Serious problems with the data underlying the business fixed investment component of GNP were revealed by the comprehensive historical revisions of the GNP data published last December. These revisions added 8 to 10 percent to the previous estimates of total business fixed investment during the period 1977 to 1979. The revisions grew larger as the time period grew more recent; that is, not only had the level of investment spending been underestimated but also its recent rate of growth. According to the revised information, real investment spending grew an average of 2.8 percent per year from 1973 to 1979; the earlier data had shown only a 2.2 percent growth rate.

Thus, during a period in which discussions of the need for more investment were at the forefront of policy debate, the data on which the discussion

was based substantially underestimated the actual rate of investment growth. The estimates then available were based in part on BEA's survey of business plant and equipment spending, a survey now known to have grown increasingly inaccurate during the 1970's as business investment practices changed and as the survey response rate became poorer. A comprehensive revision of the plant and equipment spending data, published in October 1980, indicated underestimates of 20 percent and more in the previously published data.

Although the historical data on plant and equipment spending have now been comprehensively revised, funding requested by BEA to improve and update the design of the survey itself has not been made available. Business investment practices have changed, through the more widespread use of leasing, for example, but the methodology for preparing the plant and equipment spending estimates has not been modified to keep pace with these changes. Nor has BEA had the funds available to investigate why the survey response rate has fallen and to institute changes in survey technique which might elicit better response.

Because of its possible unreliability the plant and equipment survey is no longer being used as one of the sources for estimating the business fixed investment component of GNP. This reduction in the variety of relatively reliable source data once available in effect eliminates the principal cross-check formerly used to keep this major component of GNP on target in the intervals between the "benchmarks" obtained every five years from the economic censuses.

Perhaps even more serious, the plant and equipment survey is the only official source of information about future business investment plans. As such it has long represented a key ingredient in economic forecasts, but until the survey can be modernized and its reliability reestablished, its predictive value must remain suspect.

The FY1982 Budget as originally submitted to Congress in January contained a request for funds to improve the plant and equipment survey, but this item was eliminated when the budget was revised by the incoming Reagan Administration in March. The continuing reduction in the overall resources available to BEA, described in Chapter II, makes any reallocation of resources to the plant and equipment survey extremely costly in terms of reductions necessary in other ongoing programs.

Cutbacks in Source Data for the GNP Accounts

Even prior to the imposition of possible further cuts in the FY1982 budget as recently recommended to Congress by the Administration, a combination of budget constraints, Congressionally-mandated reductions in reporting burden, and other factors was resulting in cutbacks in the data available from various agencies for use in making the GNP estimates. Recent or threatened cutbacks include:

At the Internal Revenue Service:

- sample size reduction in the statistics of income;
- slippage in the time schedule for compiling corporate tax data.

At the Federal Trade Commission:

- reduction in the sample size for the quarterly financial report.

At the Department of Agriculture:

- elimination of the quarterly farm labor survey, replacing it with a once-a-year survey which pertains to only one week of the year;
- delays in processing the farm income statistics.

At the Census Bureau:

- elimination of the survey of agricultural services;
- reduction in the number of service industries covered by the monthly survey of selected service receipts;
- a severe cut in the sample size for the survey of wholesale trade and a reduction in detail available by industry segment.

No single item on this list can be regarded as in itself crucial to the overall accuracy of the GNP estimates. In imposing program cutbacks, agencies typically have been careful to consult with BEA and to make cuts where they will do the least damage. The above list does, however, add up to erosion in the quality and timeliness of the GNP accounts. The usual July revisions, for example, were not undertaken this year, because the source data was not available in time.

The question also arises as to whether it is reasonably possible to make further reductions in statistical agency budgets -- such as the 12 percent across-the-board FY 1982 reductions now recommended by the Administration -- without much more serious damage to GNP source data. Or, if GNP source data is protected from further cutbacks, what will be the cost in terms of cuts in other important statistical programs?

II. TRENDS IN STATISTICAL BUDGETS

During the past 5 years many established civilian programs of the Federal government have found increases in their budgets lagging well behind inflation-induced increases in costs. Agencies also typically have been subject to personnel ceilings requiring reductions in total employment. At the same time, administrative requirements, such as those associated with zero-based budgeting, Civil Service reform, and the preparation of "paperwork budgets", have multiplied, requiring a higher proportion of available staff time to be spent on administrative work.

Federal statistical activities must by their very nature be conducted largely by trained government employees; the work is highly specialized, continuity of concepts and methods must be maintained over many years, and, most important, confidentiality must be assured. Therefore, statistical activities cannot usually be well or appropriately performed by private firms under contract, and personnel ceilings as well as budget limitations have impacted statistical agency programs in the past few years.

It is beyond the scope of this paper to review budget and personnel trends in all the statistical agencies, but the information presented below on the BEA and Census Bureau budgets is representative in a general way of trends throughout the statistical system.

Bureau of Economic Analysis

BEA is a relatively small agency which, although it conducts some surveys itself, is engaged primarily in analytic work relating to the preparation of the National Income and Product Accounts, the U.S. International Accounts, State and local area estimates of personal income and related activities.

During the 1970's BEA's program responsibilities were expanded due to legislative requirements for additional information, including the estimates of foreign direct investment required by the International Investment Survey Act of 1976 and the estimates of per capita income needed to administer the revenue sharing program.

Despite the added workload, employment in BEA has been reduced by over 14 percent since 1977, and, after adjustment for inflation, BEA's appropriation fell 8.6 percent from 1978 to 1981 (Table 1).

As of this writing, it appears to be the Administration's intent to exempt BEA from the proposed 12 percent across-the-board cut in previously-recommended civilian agency funding levels. Even so, requested FY 1982 budget authority would be only 3.4 percent above 1981. If it is assumed that costs of government rise in line with the overall inflation rate and that the Administration's forecast for a lower inflation rate next year is realized, this funding level implies a drop of 4.6 percent in real terms from 1981 to 1982, bringing real budget authority about 13 percent below 1978.

The Census Bureau

A similar pattern of declining real value of appropriations and a shrinking work force over the past five years can be observed with respect to the Census Bureau's program of monthly, quarterly, and annual economic and demographic statistics.^{3/} The real value of appropriated funds fell 9 percent from 1977 to 1981 (Table 2). The FY 1982 budget approved earlier this year by the House of Representatives provided a dollar increase of 4.9 percent over 1981, which implies a decline of 3 percent in real terms,

TABLE 1

Bureau of Economic Analysis
 Appropriations and Employment
 Fiscal Years 1977 - 1982
 (Dollars in Thousands)

<u>Year</u>	<u>Budget Authority</u>	<u>Budget Authority in 1972 Dollars^{1/}</u>	<u>Permanent Positions, End of Year</u>
1977	\$12,800	\$8,774	500
1978	14,110	9,026	478
1979	14,751	8,808	466
1980	16,021	8,940	452
1981	16,851	8,250	428
1982	17,426 ^{2/}	7,872 ^{3/}	428 ^{4/}

1. Deflated by the deflator for civilian government purchases other than Commodity Credit Corporation.
2. Revised Administration request.
3. Deflated using Administration's July projection for the GNP deflator.
4. Budget limitations are likely to necessitate reduction below this number.

Source: Bureau of Economic Analysis.

again using the Administration's projection of the overall inflation rate. However, the Administration now recommends a further reduction of 11 percent in this budget account. If adopted, this would mean a total real drop from 1981 to 1982 of 14 percent, bringing the real value of the appropriation nearly 22 percent below 1977.

In allocating this proposed reduction, an effort has been made to minimize cuts in GNP source data. Even so, some further cuts would occur:

- information on service industry receipts would be collected only annually rather than monthly;
- the survey of government employment would be eliminated;^{4/}
- the scope of the survey of residential alterations and repairs would be reduced.

In order to avoid other reductions in GNP source data, major reduction or elimination is being proposed for certain other business and demographic data series. The survey of income and program participation is to be abandoned. This newly developed survey, a joint project of the Census Bureau and the Department of Health and Human Services, was to have provided for the first time reliable information on receipt of "in kind" income (food stamps, housing subsidies, employee fringe benefits, and other income supplements) as well as improved information on money income and wealth.

Data about local areas is to be reduced in several ways. The County Business Patterns program, the only regular source of detailed county-level information on employment and payroll by industry, is to be eliminated, as are monthly estimates of retail sales by geographic area. Data at the State and SMSA level from the annual survey of manufacturers would be eliminated.

TABLE 2

Bureau of the Census
Salaries and Expenses Appropriation
Fiscal Years 1977 - 1982
(Dollars in thousands)

<u>Year</u>	<u>Budget Authority</u>	<u>Budget Authority in, 1972 Dollars^{1/}</u>
1977	\$44,887	\$30,770
1978	47,614	30,459
1979	51,033	30,473
1980	53,690	29,959
1981	57,200	28,004
1982	60,028 ^{2/} 53,363 ^{3/}	27,117 ^{4/} 24,106 ^{4/}

1. Deflated by the deflator for civilian government purchases other than Commodity Credit Corporation.
2. House allowance.
3. Revised Administration request, October 1981.
4. Deflated using the Administration's July projection for the GNP deflator.

Sources: Bureau of the Census, Bureau of Economic Analysis.

Updated population estimates for cities and towns, used in the distribution of revenue sharing funds, are to be prepared only every two years rather than annually.

In addition to these and other reductions in ongoing statistical programs, the Administration is proposing to eliminate entirely the 1982 census of agriculture, thus placing this census on a ten year rather than a five year cycle. Among the effects of this change would be to eliminate the information needed for the five-year benchmark estimate of agricultural income, an important GNP component. This, of course, is only one of many uses of the agricultural census. Like the other five year economic censuses and the ten year population census, the agricultural census is a basic source of detailed information by geographic area and by industry segment. Preparations for the 1982 census are already well under way with \$3.8 million having been appropriated for this program through FY 1981. Another \$7 million would be required to wind down the program in 1982. Cumulative savings from abandoning this 1982 census (actually conducted in 1983 to gather 1982 information) would total approximately \$50 million through 1985.

General Budget Climate

Sharp reductions in previously planned 1982 budgets are also being proposed in other major statistical agencies. The Bureau of Labor Statistics (BLS) plans to eliminate monthly publication of labor turnover data (new hire and layoff rates and related data); to delay for another year the redesign of the current population survey, required after each decennial census, so that it will not be completed until 1985; to delay revisions of producer price and export and import price series; and to make a number of other cuts

in data programs heavily relied upon by economic analysts.

In order to stay within its revised budget ceiling, BLS may have to lay off about 250 employees, or about 12 percent of its total work force. A work force reduction of this magnitude inevitably will involve numerous reassignments of remaining personnel, disrupting established working units and shifting personnel into program areas with which they are not familiar.

The above discussion pertains to the recently proposed changes in the 1982 budget. Details of these proposals have only recently become available and, as of this writing, the extent to which Congress can or will examine the program implications of particular budget changes remains unclear. The time frame in which budget actions must now be taken would seem to preclude the kind of careful examination which normally is given to such major program changes. Even so, it may be well into the 1982 budget year before appropriations are finally enacted and agencies know what program changes are in fact to be required.

1983-1985

Some general idea of the budget situation to be faced by civilian agencies in FY 1983 and beyond can be obtained from a projection contained in the Mid-Session Review of the 1982 Budget.^{5/} This shows the anticipated composition of outlays, adjusted for inflation, through 1986. Although

the total budget is projected to remain approximately constant in real terms from 1980 to 1985, the category containing most civilian agency programs is projected to undergo a large cut in order to help offset the planned 50 percent increase in real defense spending and the expected 8 percent rise in the largest budget category, "payments to individuals." Civilian agency programs fall into the "all other outlays" category as used in these projections, a category which roughly approximates "nondefense purchases" as used in the GNP accounts and contains the actual operating budgets of most civilian agencies (excluding grants, transfer payments and interest). This "all other" category made up 11.8 percent of total outlays in 1980. Spending in this category is expected to drop 41 percent in real terms by 1985, when it will represent only 7 percent of total outlays. Since another 4.6 percent of projected 1985 outlays consists of "additional savings to be proposed", the reductions in the "all other" category might have to be even larger than shown if the overall spending projection is to be realized.

The total budget for statistical programs represents only a small fraction of the "all other outlays" category, so it is not inevitable that statistical programs would have to be reduced in order to meet these spending reduction goals. This projection does serve to define, however, the environment in which statistical programs will be competing for funds. With the statistical program divided as it is among departments and with statistics prepared by any given department often a service function not closely related to that department's other programs, it is most unlikely that statistical programs would not have to absorb some part of these projected cuts and easy to imagine that in some cases they would experience a disproportionately large share.

III. COORDINATION AMONG STATISTICAL AGENCIES

The U.S. statistical program is a decentralized one, carried out by major statistical agencies in several different departments plus numerous smaller units located throughout the Executive Branch and in the independent regulatory agencies. It has often been suggested that the United States should bring these activities together in a central statistical agency such as is found in many other countries. Others have argued, however, that there are important advantages to locating statistical work close to the analytic and policymaking activities which it supports, and it is this system of organization which historically has been followed in the United States.

Thus, while the Department of Commerce's Census Bureau collects data on behalf of many different departments and agencies, the Departments of Labor, Agriculture, Health and Human Services, Energy, Education and others also maintain data gathering capabilities as well as capabilities to analyze and publish data gathered for them by the Census Bureau. Many statistical activities are conducted jointly by agencies in two or more departments. The monthly current population survey, for example, is conducted by the Census Bureau, which provides the data obtained on employment and unemployment to the Bureau of Labor Statistics for analysis and publication. The same survey is used to obtain information on income and poverty which is published by the Census Bureau as well as a variety of other information about individuals and households which is needed from time to time by other agencies.

For many years prior to 1977 this diversified statistical system was coordinated by the Statistical Policy Division of OMB. This Division reviewed agency budget submissions and statistical forms, established statistical

standards, and worked to maintain the objectivity and integrity of the statistical system. Operating under broad legal authorities, this division could prohibit data collections which it deemed unnecessary or duplicative, require changes in the design of statistical forms, make recommendations to the OMB Director for budget changes, establish and enforce procedures for the release of statistical information, require government-wide conformity with statistical classification systems such as the Standard Industrial Classification and the Standard Metropolitan Statistical Area definitions, and in many other ways help achieve high professional standards and reasonable efficiency throughout the statistical system.^{6/} The budget review function had a special role to play with respect to programs funded jointly by two departments, such as the current population survey or programs dependent on source data from other departments, such as the GNP. Nowhere else in the budget process either at OMB or in Congress does the opportunity arise to look at such programs across departmental lines.

Some 30 years ago, the Statistical Policy Division had a staff of close to 70 and was generally well-regarded for its professionalism and effectiveness. By early 1977 its staff was down to 30, and the Division was felt by knowledgeable observers to have lost much of its influence in OMB and in general to be operating less effectively than in earlier decades. It was at this point that most of the Division's functions were identified as ones which could be moved out of OMB in order to help reduce the size of the Executive Office of the President. Hence, in October 1977, one-half of the existing staff of the Division and much of its legal authority and workload were transferred to the Department of Commerce, where a new Office of Federal Statistical Policy and Standards (OFSPS) was created under the supervision of the Chief Economist for the Department.

OMB retained a few of its former responsibilities, most importantly the final authority to approve statistical data collection forms. The actual work of reviewing these forms from the standpoint of their statistical utility and the adequacy of their design was assigned to Commerce, however, as were the responsibilities for budget review, statistical standards work, and issuance and enforcement of the statistical policy directives used to achieve uniformity and professionalism in statistical programs.^{7/}

The transfer of the statistical coordination function was viewed with concern by the statistical agencies and by business and academic organizations representing data users. One concern was that a unit in the Commerce Department would tend to favor the programs of that department over others. A more widespread and more serious concern was that a unit within an individual department would lack the prestige and the influential voice in budgetary questions and major statistical policy matters which it had been possible for OMB to exert.

Anticipating these concerns, the Executive Order which transferred the function to Commerce also established the cabinet-level Statistical Policy Coordination Committee (SPCC), chaired by the Secretary of Commerce and intended to foster inter-departmental coordination of and high level attention to major statistical policy questions. The SPCC did in fact meet regularly at the working level; developed systematic procedures for identification of system-wide statistical budget and program priorities, and provided a forum for discussion of major policy issues.

It was soon apparent that the staff of 15 transferred from OMB to Commerce could not handle the work previously requiring twice as many people. Over the course of the next three years the staff was expanded to 25 and was

supplemented by detailees from elsewhere in the Department of Commerce or from other departments. Even so, throughout its period at Commerce, OFSPS was handicapped to some degree by tight budgets and inadequate staffing.

OFSPS operated under the additional handicap that its location in the Department of Commerce was widely regarded as temporary. Under the aegis of the President's Reorganization Project, an outside committee, headed by Professor James Bonnen of Michigan State University, had been established to review the entire question of how best to organize statistical policy coordination. This Committee conducted a thorough study of its topic and issued a carefully-prepared report presenting options for improved coordination and a more effective statistical system.^{8/}

Following prolonged review at OMB, a set of recommendations based on the Bonnen Report was submitted to and approved by President Carter. The basic recommendation was to establish a separate Office of Statistical Policy within the Executive Office of the President, adequately staffed and headed by a presidential appointee subject to Senate confirmation. The other key recommendation was for legislation to permit data-sharing among statistical agencies while strengthening the confidentiality safeguards of the statistical system.

Legislation implementing the first of these recommendations was submitted by the Carter Administration in May 1980 but was not pushed by the Administration and received little Congressional attention. Legislation on confidentiality and data sharing was drafted but not submitted, because it was felt to have little chance of passage at that time.

Even before the Administration submitted its legislation to establish a separate Office of Statistical Policy, however, legislation requiring the

return of this function to OMB had been introduced by Congressman Brooks and others as part of the Paperwork Reduction Act of 1980. This law, signed by President Carter in December 1980, specifically makes statistical policy a responsibility of the Administrator of the new Office of Information and Regulatory Affairs created by the bill.^{9/} This same Office is required by the Paperwork Reduction Act to administer a complex new program intended to make major reductions in the amount of paperwork imposed on the public. Thus the organizational arrangement is one likely to have the effect of focusing attention on reducing statistical reporting burden at the expense of the other traditional responsibilities of the Statistical Policy Division. Since statistical forms constitute only 2 percent of total Federally-imposed public reporting burden, their potential contribution to reporting-burden reduction is minor, however.

Additionally, since regulatory reform and reduction is a major objective of the present Administration, it was reasonable to assume that the Administrator and other senior officials of the Office of Information and Regulatory Affairs would devote the major share of their time and attention to regulatory affairs. Thus it could be anticipated in advance, and to date appears to be confirmed in practice, that statistical policy would be regarded as a relatively minor concern of this new Office. The statistical policy function, which had diminished in effectiveness at OMB during the mid-1970's and had been disrupted by its temporary transfer to Commerce, has now been further diminished in staff size and importance.

Of the staff of 25 which had been built up at the Commerce Department, only 15 were transferred back to OMB, and, of these 15, several have been assigned to spend most of their time on duties other than statistical policy

coordination. The effective staff size at the present time probably is only 10 to 12 persons, a small fraction of the staff assigned to these functions in the 1950's and an even smaller fraction of the staff recommended by the Bonnen Report for dealing adequately with the more complex work of the 1980's.

Thus at a time of severe budget stringency within the statistical agencies themselves, a time when effective coordination designed to stretch the use of limited resources would seem to be more important than ever, the mechanism for achieving this coordination is less adequate than it has been for decades. Monitoring of the impact of budget cuts on the GNP source data and other key economic series must for the most part be accomplished through informal "hit and miss" consultation among the statistical agency personnel. Policy questions ranging from the appropriate definition of poverty to the completion and implementation of revisions in the standard industrial classification system appear to have no systematic mechanism for resolution.

IV. OPPORTUNITIES FOR CONGRESSIONAL ACTION

There are a variety of actions available to the Congress to help insure that the statistical system makes effective use of available funding and that key economic data do not become unintended victims of budget reduction. Some of these steps would require legislation; others could be achieved simply by exerting a more active oversight role.

Strengthening Statistical Policy Coordination

Some strengthening of the statistical policy coordination function could be achieved within its present location in OMB's Office of Information and Regulatory Affairs simply by increasing its staff and providing it with stronger leadership and more support at top levels in OMB. Expression of Congressional interest and concern could help bring this about.

Other options available to Congress would be legislation to give the OMB Director discretion as to the location of this function within OMB, enabling him to separate it from paperwork reduction and deregulation activities, or legislation, such as that proposed by President Carter last year, to establish a separate Office of Statistical Policy within the Executive Office of the President.

Review of Statistical Budgets

Because different aspects of the statistical program are located in different departments, the budgets are reviewed by different examiners at OMB and by different Appropriations Subcommittees in Congress. It is difficult to assemble the information necessary to view the statistical budget

as a whole, and Congress has shown little interest in doing so.

Until the FY1979 Budget, the Special Analyses volume of the President's Budget contained a special analysis which gave at least a partial overview of the statistical program. Congress could ask OMB to resume this analysis or could have the Congressional Budget Office prepare a similar document which would be available to the various Appropriations Subcommittees as they review statistical budget requests.

Reducing Costs and Reporting Budget

Congress has enacted various general and specific requirements for reporting burden reduction, but the statistical agencies often have lacked the budget resources and the legal authority necessary to achieve these reductions in ways consistent with maintenance of a quality statistical program.

One promising avenue for reducing reporting burden is increased use of administrative records, that is, use of statistical tabulations of information collected anyway by agencies for program purposes. Social security and IRS records are examples. Such records already are widely utilized, with accompanying savings in cost and reporting burden, but the potential is by no means exhausted. Investigation and research are needed to develop techniques for better utilizing administrative records.

Funding for such work has become increasingly limited. A review of the possibilities for utilizing administrative records, the costs, and the potential budgetary savings and reductions in reporting burden would be useful. Such a review could be conducted for the Congress by the General Accounting Office (GAO); by the Committee on National Statistics of the National Academy of Sciences, or by private consultants.

The Standard Statistical Establishment List (SSEL)

Legislation to allow other statistical agencies to use the Census Bureau's Standard Statistical Establishment List (SSEL) is a specific example of an important legislative step which could be taken to improve data quality, reduce reporting burden, and save money.

The SSEL is a computerized list maintained by the Census Bureau of all U.S. business establishments with employees. For each establishment the list provides name, address, type of business, and codes indicating general size of the establishment and number of employees. This list has been developed over the past ten years with the intention that it would be available to statistical agencies for use as a sampling frame. Its use would greatly reduce the work other statistical agency now must do to develop survey samples, would allow them to use scientifically-drawn probability samples, and would substantially improve comparability among data obtained from different surveys. It would permit reductions in reporting burden both by eliminating duplicative data collection and permitting the use of smaller samples, because they could be more scientifically designed.

The Census Bureau is prohibited by the Census Law (Title 13) and, because the list is obtained in part from tax records, by the Tax Code from allowing other agencies to use the SSEL. Although, as noted, development of this list has been underway for 10 years, the amendments to these laws which would permit access to the list have never been introduced. Legislation has been drafted within the Executive Branch, but, in part due to IRS opposition to any change in the confidentiality provisions of the tax code, has never been forwarded to Congress.

GAO prepared a report on the SSEL in 1979 identifying important potential benefits from its shared use and recommending enactment of enabling legislation. This GAO study is one of a long list of studies dating back to 1937 and all reaching similar conclusions.^{10/} The broad questions of data sharing and confidentiality may be complex and controversial, but agreement on the specific question of utilizing the SSEL is near-universal. Failure to move forward would seem to be primarily a case of inertia and inattention to an important, if technical, legislative need.

Conclusion

The discussion in this paper is not intended as a comprehensive statement of problems facing the statistical system. Rather it is limited to a highlighting of some of the factors likely to impact the GNP and other economic data in the near future.

Similarly, this paper does not attempt to make comprehensive proposals for improved congressional oversight of the statistical program, but rather to identify a few steps which are realistic in the current budgetary environment, which require no new congressional entities or organizational arrangements, and which could be taken quickly. In the judgment of the author, these steps would be of considerable value in helping to preserve the quality of U.S. economic data during a period in which that quality is likely to be increasingly threatened.

Footnotes

1. A more detailed discussion of the uses of the National Income and Product Accounts can be found in A Primer on Gross National Product Concepts and Issues, U. S. General Accounting Office, GGD-81-47, April 8, 1981.

2. Gross National Product Data Improvement Report, Report of the Advisory Committee on Gross National Product Data Improvement, U.S. Department of Commerce, October, 1977.

3. This analysis is based on the "Salaries and Expenses" appropriation. The "Periodic" appropriation is excluded because the 5 and 10 year funding cycles for the economic and population censuses cannot be meaningfully analyzed in terms of year-to-year changes.

4. Other sources of information on employment at the different levels of government are available. Information from this survey is used in calculating the deflator for the government component of GNP.

5. Office of Management and Budget, July 15, 1981, p. 76.

6. The principal legal authorities were:

1) Section 103 of the Budget and Accounting Procedures Act of 1950 which directed the President to:

"...develop programs and to issue regulations and orders for the improved gathering, compiling, analyzing, publishing, and disseminating of statistical information for any purpose by the various agencies in the executive branch of the Government. Such regulations and orders shall be adhered to by such agencies."

2) The Federal Reports Act of 1942 which provided the authority to require OMB approval of statistical (and other) information collection forms distributed to the public.

7. Executive Order No. 12013, October 7, 1977.

8. Improving the Federal Statistical System: Issues and Options prepared by the President's Reorganization Project for the Federal Statistical System, James T. Bonnen, Project Director. Originally distributed November 1978. A revised version appears in the Statistical Reporter, U.S. Department of Commerce, February 1981, pp. 133-221.

9. Public Law 96-511. This law replaces Chapter 35 of Title 44 of the U.S. Code, the Federal Reports Act of 1942, with a new chapter, Section 3504(d) of the new Chapter describes the statistical policy functions assigned to the Director of OMB. Section 3(a) of PL 96-511 requires the President and the Director of OMB to delegate to the Administrator of the Office of Information and Regulatory Affairs all their functions, authority, and responsibility for statistical policy and coordination under section 103 of the Budget and Accounting Procedures Act of 1950.

Footnotes (continued)

10. After Six Years, Legal Obstacles Continue to Restrict Government Use of the Standard Statistical Establishment List, Comptroller General Report GGD-79-17, May 25, 1979.

Previous recommendations for a centralized business listing include those of the Committee on Government Statistics and Information Services, 1937; Commission on Organization of the Executive Branch of the Government, 1949; Report of the Intensive Review Committee to the Secretary of Commerce, 1954; Report of the Subcommittee on Economic Statistics of the Joint Economic Committee, 1961; Report of the President's Commission on Statistics, 1971, Report of the Commission on Federal Paperwork, 1977. See p. 6 of the GAO Report for additional background.

