Metropolitan Policy Program at BROOKINGS

Looking Back, Looking Forward: The Role of the BLS Office of Price and Living Conditions in Economic Policy

Andrew Reamer, The Brookings Institution
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Good morning. Thanks, Commissioner, for the introduction, and Mike, for the invitation. I'm glad to be here. I'll be discussing the traditional role of federal economic statistics programs, including those in OPLC, and my belief about how that role needs to expand and change to address current economic issues and opportunities.

The health of the U.S. economy is highly reliant on OPLC data products, for

- macroeconomic policy
- trade policy
- adjustments in payments
    - going out – from governments and businesses
    - coming in – taxes

  to keep them on a real basis.

OPLC's importance came about as a result of institutional innovations in economic policy made in the 20-year period between the mid-40s and the mid-60s.

These innovations emerged, in turn, from the development of modern social science, which rested on the notion that if we understand how the society works, we can create programs and structures to manage it.

The nation's approach to public policy was based on the image of the economy as a machine, controlled by levers and informed by dials.

- Two of those levers, fiscal and monetary policy, were institutionalized in federal policy with the Employment Act of 1946.
    - Coming out the Depression, the concern was taming the economic cycle.
    - The price indices you produce are essential dials determining the use of the monetary policy lever by the Fed.
- A third type of lever seeks to facilitate equity and fairness. These values came to the fore in the 1960s and 70s.
    - There was a shared belief that social policy should put a floor under those less well off, through AFDC, food stamps, Medicaid, Medicare, and the like. And that recipients should not lose purchasing power due to inflation.
    - Further, in business transactions and union contracts, there was a notion that market actors, particularly workers, should not experience unearned losses due to inflation.
    - The notions of equity and fairness are relatively new social concepts and our ability to put these values into practice, based in part on your work on prices and expenditures, is even more recent.

So you get the image, price data are a key input for the management of our economic machine, for the masters of the economic universe and as a form of automatic stabilizer.

To continue with the metaphor, BLS was organized a half century ago along the lines of a production shop to feed the dials on the machine. The principles of statistical sciences provided the basis for setting up a highly structured operation. When you think about where the science and practice of price index development was in the 1920s and where it has come to today, the whole process—technical and organizational—is quite remarkable and a testament to the dedication, creativity, and discipline of BLS price and expenditures staff over time.

For this approach to public policy to work, it requires that the economic machine behave in response, to actually provide economic stability and well-being. But in fact, we can see, it hasn't, particularly of late.

When the Employment Act of 1946 was passed, it was assumed that the economic cycle was the problem and that our economic structure, in terms of industry and its geography location, was more or less stable. Pittsburgh would always make steel, Hartford would always sell insurance, Chicago would be hog butcher for the world, and while some manufacturing would migrate to less developed places in the U.S., as textiles did from New England to the South in the 1950s, the wealth would spread outwards and existing centers would hold. Vulnerability to international competition was not a concern.

But, as we know, the nation's economic structure has been in flux since 1980, in ways that have caused some communities significant economic distress and created much wealth in others. Continuous improvements in transportation and communications have meant that capital is incredibly mobile; much of it has appeared outside our borders. New technologies have meant knowledge requirements have increased, displacing the less skilled. Economic change is rampant. In many areas, such as Detroit, core parts of the economy are gone, unlikely to return. The evidence is quite clear. No U.S. region can take its economy and its competitiveness for granted, ever.

To date, there has been no updated version of the 1946 Employment Act to manage structural change. Federal efforts to ameliorate distress haven't worked particularly well, essentially because the government has been applying a mechanical approach, as it's done for decades, to a situation that doesn't behave like a machine, particularly in a world with substantial international competition. Programs are developed with scopes that match narrow congressional committee jurisdictions and are designed to be operated in a highly structured, top-down fashion—think the Workforce Reinvestment Act.

For over a half century, we've believed that the economy operates in a world of

Newtonian physics—that if we try hard enough, we can see everything and manage it. In fact, we're living in the world of quantum physics, with zillions of moving parts, most of which can't be seen, relationships that are ephemeral, uncertainty that is enormous, and control that is limited.

So we need a different approach to economic policy and, as I'll discuss, a broader role for the federal economic statistical system.

In the quantum physics world, it's hard to dictate or manage behavior. The best you can do is improve the odds that good things will happen by providing sufficient incentives that draw people in a certain direction.

From where I sit, the health and well-being of the U.S. economy is a function of the international competitiveness of its regional economies, and these in turn are dependent on the clusters, the industry agglomerations, that make up the core of these economies. Competitiveness is to a large degree about having trusted relationships between and within organizations in industry networks, relationships that are flexible and creative in reaction to fluid market conditions and opportunities.

There's not much the government can do using a top-down, mechanical approach to affect that. While macroeconomic policy will always be important, the government needs to change its principles of economic adjustment program design from top-down to bottom-up and its role from a manager to a catalyst.

One way to do that is to use money as a catalyst, to say that if you folks at the regional level figure out a way to organize yourselves across businesses, schools, and governments to be more competitive, and pay to play, we'll put up seed money to get you going. ETA's WIRED program used this approach and EDA in Commerce and the House Science Committee have independently proposed to do the same around industry clusters.

Money's certainly a useful tool, but by definition it's expensive. I believe that the government will get the greatest return on investment in information, particularly statistics, that can improve the quality and effectiveness of public and private decisionmaking—not only in the traditional macroeconomic and inflation adjustment uses, but for the multitude of investment decisions made by large and small businesses, nonprofits, and states and local governments.

As a policy tool, statistics have numerous advantages:

- they are cheap, particularly relative to grants
- they are flexible, you can use the same numbers for many kinds of decisions, public and private, international, national, and local
- they are indestructible, they can be used over and over again, over space and over time
- advances in information technology make it possible for orders of magnitude more users to access and quickly use the data than was so 20 years ago
- their bang for the buck is enormous—a federal investment in economic statistics of somewhat over $1 billion a year guides behaviors across the entire $14 trillion economy

I believe that OPLC is a key player in a new approach to economic policy, building on your current central role in macroeconomics and inflation correction.

The challenges before BLS and OPLC are two. The first is to fulfill an expanded mission—improve decision-making throughout the economy—and serve an expanded constituency—the wide array of public and private decision-makers who would take advantage of improved labor statistics, including price and expenditures data.

The second challenge is to help the powers-that-be—Congress, OMB, the Secretary's office, and the DOL budget office—recognize the importance of the investment of relatively modest amounts of money into the economic statistical system in general and BLS and OPLC in particular.

Regarding the first point, OPLC clearly is seeking to do its part to better serve data users. Going through OPLC's FY11 budget request, 17 percent greater than the FY10 enacted, I am impressed with the array of desired improvements in its various programs.

I'll offer additional ideas for you to consider, all of which will take money.

The first set involves increasing geographic detail. If national economic competitiveness is a function of regional competitiveness, then having regional price and expenditures data would be very valuable.

- Triple the number of metros with a CPI, from 27 now—businesses and regional development agencies very much want these data
- Provide interarea price comparisons, that is, over space as well as over time
- Increase the sample size for CE so you can provide greater geographic detail—data by Census regions is not particularly useful for regional analysts
- Create cost-of-doing business indexes for metros around the U.S.

The next set of ideas is to integrate OPLC much more closely to Administration trade and export development efforts. I'd like to have the Secretary see that BLS and OPLC are more actively involved in the president's export promotion initiative and cabinet. It is telling that you are not now. Data are not mentioned in the president's executive order creating the initiative and cabinet. To me, price data are critical to successful trade policy.

In addition are ideas I proposed to the White House Office of Science and Technology Policy last November:

- In the IPP, fill current coverage gaps in the rapidly growing international services sector, particularly health care and business services. Price indexes for imported international services would allow comparisons of price trends between similar imported and domestic U.S. service industries. Price indexes for exported U.S. services would allow comparisons with price trends of similar services in other

- In the IPP, prepare foreign currency price indexes. These indexes could be used to measure the price trends of U.S. exports and U.S. imports from the perspective of foreign buyers or sellers. They also could help assess U.S. corporate competitiveness and foreign producer responses to fluctuations in U.S. dollar exchange rates.
- In the IPP, prepare an input price index that would track the prices for inputs that U.S. establishments are paying for goods and services. Such an index would allow analysts to better monitor price shifts attributable to shifts in sourcing, be they domestic or foreign.

Finally, I'd like to see PPI fill current coverage gaps in key domestic service industries, including computer systems services, certain health care specialties, educational services, and finance and insurance. Availability of these data would enable analysis of real trends in the full array of knowledge-based industries.

Sure, implementing these ideas will take a lot of money in BLS terms, but in federal government terms the needed funding is pretty minimal given what's at stake. Consider:

- In FY10, total personnel compensation for OPLC is $85 million, somewhere between the player payrolls of the Seattle Mariners and the Atlanta Braves (ranked 14th and 15th)
- OPLC's total FY10 budget of $201 million is less than the Yankees player payroll ($206 million) and less than 2/3 the cost of an F-22 fighter jet

How much does society value what you do? One of the challenges will be to help the powers-that-be see the difference between cost and worth.

Congress struggles to get this idea. It tends to have little appreciation for the value of economic statistics, whether for traditional macroeconomic and adjustment purposes or

newer ones. (To use the prior analogy, insufficient BLS budgets have meant that some of the dials designed to guide macroeconomic policy are less accurate than they could be, or are not there at all.) Part of the problem is that the agency appropriations are tucked away in much larger budgets covering a wide variety of programs, in your case, along with health, education, and the rest of the Labor Department. Appropriations staff are not trained in the sources, uses, and value of economic statistics.

So in late 2007, Congress could close a $22 billion budget difference with the president by shaving $30 million from BLS's budget, contributing all of 14/100 percent of the gap and not recognizing the damage that the cut did to our ability to track the economy, e.g., preventing you, once again, from updating the CPI housing sample from the 1990 census frame.

Administration approval of OPLC's proposed 17 percent budget increase for FY11 does show that DOL under Secretary Solis and OMB under Peter Orszag do get it, though even there I expect there is more education to be done. Hopefully, an appreciation of statistics will continue once Mr. Orszag is gone.

What can OPLC do? A first step is shift your culture to become more entrepreneurial and demand-driven, go out into the world to understand the needs of your potential customer base, particularly the ones you don't serve now, and propose ways to meet those needs. Articulate past and expected future return on investments in OPLC data, provide evidence, and insert this in the BLS strategic plan.

The second step is to make friends with your constituencies, old and new, so they are ready to advocate for you on the Hill. One reason that BLS lost $30 million three years ago is that its constituency was not well organized and, as I suggested earlier, the appropriations committees have trouble grasping the value of your work to the nation without someone helping them.

To help statistical agencies build these relationships, Brookings has hosted roundtables immediately after the release of the FY10 and FY11 budgets with leadership from BLS, Census, and BEA and about 20 data user organizations, such as the National Association for Business Economics, the National Conference of State Legislatures, and the Council for Community and Economic Research. Association members are from all around the country and they each have two senators and at least one member of Congress. From a political perspective, one benefit of paying attention to the needs of and relationships with these users is that they will be more likely to actively support the BLS budget request at appropriations time.

In the coming times of tight budgets, better evidence and relationships are going to be critical to ensure that OPLC has the funds necessary to serve the nation's economic data needs. I will argue that investment in statistics is even more important in tight budget times because of the government- and economy-wide efficiencies they engender. Congress may well pass a continuing budget resolution for numerous federal agencies, including DOL. BLS should receive an anomaly so it can receive its requested budget increase, for the economic good of the nation. This will be hard to bring about; it will take evidence and relationships to make it happen.

Looking ahead, if OPLC can add to evidence and relationships a vision of a broader mission, understanding of a wider set of data user needs, and creativity in addressing these needs, I believe that its impact on the nation will significantly expand beyond is current sizable level.