

The Federal Statistical System in the 21st Century: The Role of the Census Bureau

Andrew Reamer, Fellow
Metropolitan Policy Program, The Brookings Institution

Joint Economic Committee

July 21, 2009

Chairwoman Maloney, Vice Chairman Schumer, Congressman Brady, Senator Brownback, and members of the Joint Economic Committee, I am pleased to speak to you today about the role of the Census Bureau in a 21st century federal statistical system.

Census Bureau data are essential to the effective functioning of our nation's democracy, public policy at all levels of government, and our \$14 trillion economy. For example, congressional apportionment and redistricting; federal macroeconomic and regional economic development policies; the annual distribution of a half trillion dollars in federal funds; the enforcement of the Voting Rights Act and the Fair Housing Act; state road-building and emergency planning; the placement of public schools and community health centers; and business startup, location, and investment decisions all rely on Census Bureau statistics. At the most fundamental level, the nation could not operate without this agency.

Relative to the enormity of the political and economic impacts, the size of the Census Bureau operation is very small. Outside the Decennial Census, Census Bureau operations cost in the range of \$500 million annually; averaged over a decade, the cost of the 2010 Census operation is about \$1.5 billion a year. The return to the nation on this investment in the Census Bureau is nearly infinite.

However, the Census Bureau is not yet a 21st century statistical agency. While the bureau has made substantial, innovative advances in improving the value of its data offerings, I believe these offerings need to more fully reflect three new realities:

- major changes in the nation's economic structure,
- the potential for Census Bureau data to enable more informed, effective nonfederal public and private decision-making across the nation, and
- significant opportunities for new data products and techniques afforded by large scale advances in information technology.

Changing Economic Structure

In the last half-century, the nation's economic structure has undergone dramatic changes, from one based on manufacturing, large corporations, physical labor, and little international trade to one reliant on services, entrepreneurship, knowledge workers, and global markets.

The Census Bureau's statistical programs need to more fully capture the essential components of our 21st century economic structure. While the Census Bureau has highly regarded, long-standing, frequent data collections for manufacturing activities (consistent with the nation's economic base in the 1950s and 1960s), it does not yet have the same level of data collection efforts for the service industries that now dominate the nation's economy.

For a number of years, the Census Bureau has sought, but was unable until FY2009 to obtain, the \$8 million needed to survey the finance, insurance, and real estate industries on an annual and quarterly basis. The lack of these data has meant that the Bureau of Economic Analysis' quarterly estimates of Gross Domestic Product have not been as accurate as they might have been, particularly in times of major economic reversal. As a result, macroeconomic policymakers at the Federal Reserve, the Treasury Department, the Office of Management and Budget, and the Council of Economic Advisers have been making determinations on the basis of other than the best possible data.

In a similar vein, the Census Bureau has not had a regularly collected survey of residential finance. Typically following the decennial census, the last Residential Finance Survey (RFS) was carried out in 2001; the Bush Administration discontinued planning for a 2011 RFS due to budget constraints. Even if the RFS were revived, a once-a-decade assessment of the workings of the nation's residential finance markets is far too infrequent in light of the impact of those markets on the national economy and, in particular, their role in catalyzing the current recession. It is essential that policymakers and analysts have a current, accurate picture of the structure and flows of housing finance markets. Efforts are underway to address this data gap, including proposed \$3 million funding for the Department of Housing and Urban Development (just approved by the House Appropriations Committee) to reimburse the Census Bureau to conduct a biennial multi-family residential finance survey.

Due to recent FY2009 and likely FY2010 appropriations, the Census Bureau's economic statistics are poised to become more reflective of our 21st century economic structure and markets. However, as economic structure and markets are never static, strong and stable future funding is needed to ensure that the Census Bureau's data products fully capture current realities and so meet policymaker needs.

More Informed, Effective Decision-Making

The advent of Web-based data access has allowed the Census Bureau's customer base to expand exponentially. State and local governments and millions of private businesses, from Wal-Mart to home-based entrepreneurs, can far more quickly and easily incorporate census data into their analyses and decision-making processes than was so just 15 years ago. The potential exists, then, for federal statistical agencies in general, and the Census Bureau in particular, to enable significantly

improved public and private decision-making regarding the allocation of trillions of dollars—generating very substantial economic benefits at minimal taxpayer cost.

Nonfederal data users are primarily interested in current, reliable demographic and economic data on states, metro areas, counties, cities and places, and neighborhoods. In this regard, the Census Bureau is about to take a major step forward with its upcoming first-time publication of annually updated small area American Community Survey (ACS) data. Data users will have access to current five-year averages for areas as small as census tracts and block groups, replacing the traditional once-a-decade, nearly always outdated, long-form decennial data.

However, the Census Bureau is facing a significant issue in that the ACS sample size, fixed at 3 million households annually, is increasingly too small to provide reliable small area estimates. To approach the accuracy of the decennial long form data, the ACS needs to survey at least 3 percent of households annually (about 3.5 million households at the moment). For the nation to obtain the full benefit of the ACS, I strongly suggest that the Census Bureau request, and the OMB and Congress approve, funds to support an annual 3 percent sample.

Web tools that integrate small area data from the Census Bureau and nonfederal sources, such as state and local governments, greatly increase the capacity for improved data analysis and decision-making. For instance, census data populate an ever-growing number of national and local community indicator websites that provide a detailed picture of the socioeconomic conditions of local areas, down to neighborhoods. To facilitate this important use, the Census Bureau should explore means of providing direct, current data feeds to data intermediaries through a distributed data system. The bureau's innovative DataFerrett tool could be the foundation of such an effort.

The Census Bureau should take steps to better meet the needs of federal, state, and local economic development organizations for detailed, current subnational statistics. Historically, the Census Bureau has viewed the nation's macroeconomic policymakers as the primary customers for its economic statistics. This orientation developed at a time, in the late 1940s and 1950s, when national economic policy was concerned primarily with managing the economic cycle through fiscal and monetary policy. The nation's economic geography was thought to be highly stable—Detroit would always be the car-making center and Pittsburgh would always make steel. International competitiveness was not an issue.

Since 1980, however, due to globalization, increased capital mobility, and faster technological change, the nation's economic geography has been in a continual state of flux. Over the last three decades, many once-stable regions have experienced economic shocks; as experience makes clear, no region can take its economic base for granted.

Today, our nation's economic health is very much a function of the international competitiveness of its regional economies. Consequently, federal, state, and local policymakers need a full understanding of the economic structure of, change in, and flows among the nation's regions and the world. State and regional economic development organizations are actively preparing and implementing economic adjustment strategies; the value of such strategies depends on good data that reflect economic, not political, boundaries.

Hence, detailed, accurate economic data on metropolitan areas, which provide the large majority of the nation's GDP, are quite important. Based on existing data collections, for example, the Census Bureau could publish much needed metropolitan-level data on research and development; innovation; foreign trade in goods; place-to-place domestic migration; and business starts, expansions, reductions, and closures, by industry.

Historically, the Census Bureau has been relatively insulated from the broad array of its data users. In light of the substantial potential for improved public and private decision-making, I encourage the Census Bureau to more actively seek to develop relationships with representatives of a wide array of users in order to ascertain how it can best meet their needs. Experience suggests that trade and professional associations of important data users (e.g., National Association of Counties, Council for Community and Economic Research, National Association for Business Economics, National Retail Federation, Association of Public Data Users) would be useful channels for this purpose.

Technically Innovative Data Products

Advances in computer hardware and software are allowing all statistical agencies to explore and develop new data products and methods, to the nation's benefit. The Census Bureau has been in the forefront of this innovative activity, including:

- Very large administrative datasets that replace the need for more expensive surveys. Under its traditional confidentiality strictures, the Census Bureau operates the Statistical Administrative Records System (StARS) that maintains a variety of federal, state, and private databases.
- Dynamic data that describe how firms and people move through the economy over time and space, giving us a “look under the hood” of the economy. The Census Bureau has a number of data programs that create dynamic data: on hires and fires and where people live in relation to where they work (Local Employment Dynamics [LED] Program); on firm change over time, by age and firm size (Business Dynamics Statistics); and on establishment births, deaths, expansions, and contractions (Statistics of U.S. Businesses). Dynamic data have the potential to be a very powerful new tool for federal and regional economic policy.
- Synthetic microdata that allow the analysis of individual records without betraying confidentiality—greatly expanding the potential for understanding the patterns of local economic activity, with positive implications for public policy. IT advances have resulted in traditional public use microdata sets being more vulnerable to possible breeches of confidentiality. One means to address this problem is by creating synthetic microdata that generate true statistics (for example, mean, median, and frequency distribution). The Census Bureau's LED Program has been in the forefront of this area of work, using synthetic data to map where people live in relation to where they work—data useful for economic and workforce development, transportation planning, and emergency planning.
- Modeled estimates that reduce the need for large surveys. By working with administrative records and existing surveys, the Census Bureau has been able to estimate income, poverty, and insurance coverage for small areas, enabling more accurate distributions of federal funds, among other uses.

As these innovative efforts are inexpensive and have substantial benefits, the Census Bureau has been eager to pursue them. However, despite the low cost and high potential, the bureau has had difficulty in obtaining the funds needed to fully exploit the possibilities.

A case in point is the LED program, which works with business and wage records from state unemployment insurance systems. LED has been in existence for over a decade, but with a congressional appropriation of only \$2 million; to keep the program afloat, the Census Bureau has had to draw another \$6.5 million from discretionary funds and reimbursable work, primarily for the Department of Labor. Consequently, LED has been limited in its geographic coverage and policy impact.

However, full funding for LED may be on the horizon. In its FY2010 budget, the Administration requested \$13.7 million to expand and stabilize the program. As part of the proposal, LED would provide nationwide coverage, giving federal macroeconomic policymakers a valuable new tool to assess economic dynamics. Further, the bureau proposes to add new functions, such as a job-to-job flows tool that would allow analysts to track the industry, geographic location, and wages of a group of workers over time. With this tool, for example, LED would be able to determine the current employment situation of workers who were in a regional industry that recently experienced substantial restructuring (such as the Manhattan financial industry, the Detroit auto industry, or the southern California residential construction industry). Such a tool would have great value for federal and state workforce policy. The House and the Senate Appropriations Committee have approved a Census Bureau budget that includes the requested funding for LED. I encourage the full Senate to approve this funding as well.

Conclusion

As valuable as it is today, the Census Bureau has the potential to transform how the nation conducts its work, at little additional cost to the taxpayer. For the Census Bureau to fully become a 21st century statistical agency, several conditions need to be met. The Census Bureau must understand and effectively respond to the data product needs of its diverse customer base. In doing so, it should take complete advantage of opportunities offered by cutting-edge information technologies. And it must have the support of the Commerce Department, OMB, and Congress to obtain the stable funding necessary to sustain the programs that meet those needs. As the one congressional committee with an overview of the nation's economic statistical system, the Joint Economic Committee can play a valuable role in ensuring that these steps are taken so that the bureau can achieve this potential.

I thank the committee for your attention and welcome your questions.