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Metropolitan Policy Program
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The Structure of the U.S. Economic Statistical System: Implications for Public Policy

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Key Points

Long-standing orientation of U.S. economic statistical agencies to produce national data that support macroeconomic policies in managing the economic cycle

Tendency, as a result, for an undersupply of current, detailed, useful regional data

In light of increased economic vulnerability, the need for economic policy to more directly improve competitiveness of economic base

The nation's economic competitiveness is a function of the competitiveness of its regional economies

Improved regional statistics for use by public and private decision-makers would be a highly cost-effective tool for promoting regional competitiveness

Core U.S. Economic Statistical Agencies

Economics Directorate, Census Bureau

- current economic statistics, economic census, census of governments
- proposed FY10 budget $300M, 2,100 FTE

Bureau of Labor Statistics

- statistics on labor force, prices and cost of living, compensation and working conditions, productivity
- proposed FY10 budget $612M, 2,400 FTEs

Bureau of Economic Analysis

- four types of economic accounts—national income and product, international, industry, regional
- proposed FY10 budget $101 million, 545 FTEs

Regional Economic Data Products

Diverse, idiosyncratic, long-standing

- consistent over space and, with key exceptions, over time
- inconsistent coverage across agencies (e.g., jobs, income)

In recent years, agencies, Administration, Congress have given low priority to investment and improvements in regional data

Reasons

- Statistical agencies view federal government as primary client, particularly national economic policymakers and domestic assistance grant programs
- Congress does not understand the almost infinite social return on public investment in statistics
- Past Administrations have been uneven in support for statistical budgets in general, ignored regional statistics

The Foundation for the Modern Statistical System

Historical roots

- Census Bureau – 1810 decennial census of manufactures
- BLS – founded 1884 to educate regarding worker conditions
- BEA – emerges 1913 to compile secondary economic data

In mid-1920s, agencies produced disparate data collections and reports to help business decision-making

Great Depression set path to modern economic statistical system

- Roosevelt Administration recognized value of reliable statistics to guide a more proactive economic policy
- Committee on Government Statistics and Information Services led to expanded economic statistics, greater agency coordination, probability sampling, staff professionalization
- BEA predecessor implemented national income accounting and GNP concept

The Creation of the Modern Statistical System

Modern economic statistical system emerged after World War II

- strong desire to avoid new economic traumas
- belief that government could use emerging principles of economic science to stabilize and grow nation's economy

Catalyst was Employment Act of 1946 – government charged with using "all practical means" to "to promote maximum employment, production, and purchasing power"

Policymakers viewed economy as a problem for "top down" social engineering – on the basis of good data, pull the right fiscal and monetary levers to see that the economic cycle remains on course

Act catalyzed coherent, integrated, though still decentralized and idiosyncratic, economic statistical system

Agencies' key mission – provide regular, dependable flow of national data for effective management of the economic cycle

Economic Policy and Statistics in U.S.-Dominated World: 1946-1980

Macroeconomic policymakers saw little need to focus on nation's strong, stable economic base – believed proper fiscal and monetary policy sufficient to support growth

Efforts to enhance economic structure addressed ad hoc outside of macroeconomic policy, e.g., creation of National Science Foundation (1950), Small Business Administration (1953), and interstate highway system (1956)

With prosperity, 1960s Great Society aimed to reduce poverty through grants to states/areas for infrastructure, labor, housing – model was "top down" social engineering

New statistical agency responsibility – provide state/local data to determine geographic allocations of grants

A Changed World

Since 1980, the circumstances in which economic statistical agencies operate have changed in three significant ways:

- Economic – a dramatic change in the industrial structure, competitive vulnerability, and geographic location of the nation's economic base
- Technological – an orders-of-magnitude advance in the capacity of public and private data users across the nation to access, absorb, and analyze federal economic statistics
- Political – a decline in Congress and Administration understanding of the value of federal economic statistics for effective public policy

Economic Base at Risk, Policy Response: 1980-2009

Innovations in communications, transportation, product development, production technology, and finance led to the disruption of economic base – geographic dispersion of plants and personnel around the globe, greater fluidity in business structures, intense global competitiveness

Many industries lost competitive advantage, communities lost stability, wealth, and reason for being

U.S. lacks coherent policy for addressing competitive vulnerabilities – approach to policy remains in mid-20th century macroeconomic policy framework

In absence of fundamental change in policy, statistical agencies continue to view the federal government as their primary customer

Example: BEA Data Program Priorities

BEA defines its core programs as those producing:

(1) statistics that feed into the estimation of gross domestic product and related statistics

(2) statistics required by federal law

(3) statistics required for the administration of federal programs

For FY08, a 5% cut by Congress in BEA's budget request led the agency to eliminate detail for regional statistics on industry earnings and foreign direct investment

Current State of Federal Economic Statistics

U.S. suffers from an undersupply of current, accurate, useful economic data – as a result, the nation's ability to track and respond to economic conditions through macroeconomic and other policies is diminished

Budgets have been constrained. Congress does not appreciate the value of $1B investment in economic data to facilitate $14T economy. Impacts during Bush Administration:

- existing data series eliminated; reduced in detail, accuracy; not recalibrated to reflect new benchmarks and new methods
- statistical system not adequately upgraded to reflect the major structural changes in the economy
- statistical system not able to take full advantage of remarkable advances in information technology and statistical methods

Further, statistical agencies have not paid sufficient attention to the needs of non-federal, particularly regional, data users

In 2009, Congress and Obama Administration have taken first steps to rectify problems

New Approach to Economic Policy and Statistics – 1

U.S. needs economic policy approach that integrates traditional cyclical management with efforts to enhance competitiveness

This approach should encompass all dimensions of economic structure, including economic and workforce development, physical and financial infrastructure, innovation, entrepreneurship, and community stability

Structural policies should reflect the fact that the health of the national economy is a function of the economic competitiveness of its regions

While macroeconomic policy is “top-down,” effective structural policy is “bottom-up,” enhancing the capacities of businesses, governments, and workers to promote competitiveness, particularly at the regional level

Metaphorically, need to shift paradigm from Newtonian, mechanistic physics—seeing the universe as an engineering problem to master—to quantum physics—a universe of uncertainty amenable to efforts to raise the probabilities of desirable events

New Approach to Economic Policy and Statistics – 2

The most cost-effective structural policy tool is current, accurate, detailed economic data that can inform intelligent decision-making regarding goods, services, and activities in which to invest scarce resources, how much, and where

- Much of the needed data is regional

There is a market failure of insufficient and inaccurate information

New information technologies have enabled an extraordinary increase in the number of data users and their capacity to use large volumes of data to improve decision-making

As information is an inexpensive public good, the return on the nation's investment in economic statistics is nearly infinite

Consequently, statistical agencies should seek to meet the data needs of the full array of federal and non-federal, particularly regional, data users

New Approach to Economic Policy and Statistics – 3

A structurally dynamic, knowledge-based economy requires a statistical system that produces innovative data series that take full advantage of IT advances and statistical agency staff creativity

IT transformation allows statistical agencies to shift from command-and-control, production shop style of management to one of stimulating internal entrepreneurship

Greater interaction with non-federal users will lead agency cultures to be more customer-oriented and flexible; agencies will gain customer base willing to advocate for sufficient budgets

Conclusion:

- A redefinition of federal economic policy to include an integrated, coherent approach to competitiveness is sorely needed
- This redefinition should lead to an explicit re-purposing of economic statistical agencies so they provide data needed for improved public and private decision-making and a stronger economy

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