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## The Department of Commerce Budget Request for Fiscal Year 2008: Observations for Consideration

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House Committee on Appropriations, Subcommittee on Commerce, Justice, Science  
and Related Agencies

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### Introduction

Chairman Mollohan, Congressman Frelinghuysen, and distinguished Members of this subcommittee, good morning. I appreciate the subcommittee's invitation to offer my perspective on the Department of Commerce fiscal year 2008 budget request.

This subcommittee is in a unique position to assess the work of the Department. Responsibility for authorizing and overseeing the work of the various Department operating agencies is spread among a number of House committees and subcommittees. Only the Appropriations Committee and this subcommittee have a formal process in place to assess the Department as a whole. I believe that, without treading on the purview of authorizing and oversight committees, you can play a valuable role in identifying issues and providing guidance and direction for the Department as a whole. Essentially, I believe, this subcommittee serves as the investment committee for the Department of Commerce, and it is in your interest to seek the highest feasible return on your investment.

My observations are based on various FY2008 Department of Commerce budget documents, the newly released draft Department FY2007-FY2012 strategic plan, and my professional interactions with seven of the Department's agencies.

The Department of Commerce indicates: "Our mission is to create the conditions for economic growth and opportunity by promoting innovation, entrepreneurship, competitiveness, and stewardship." By "stewardship," the Department means "environmental stewardship." And actually, when one looks at the distribution of the

requested \$6.6 billion funds by agency, one thinks that perhaps the Department should be renamed the “Department of Seas, Skies, and Commerce,” for the National Oceanic and Atmospheric Administration (NOAA) takes up \$3.8 billion, or 58 percent of the requested funds.

I imagine that NOAA does great things, but I have no work experience with it. I’ll be focusing my remarks on the commerce part of the Commerce Department, the remaining \$2.7 billion, which constitutes a true drop in the bucket as far as the \$2.8 trillion federal budget goes, less than one tenth of one percent. At the same time, I hope to show that when properly applied, this relatively small amount of funds generates extraordinarily high returns for our economy, our society, and our democracy.

I will begin by laying out what I see as the three key aims of the non-NOAA part of the Commerce Department. Then I will make a series of observations regarding the Department’s approach to achieving each of these aims, as reflected in its FY2008 budget request.

### Three Departmental Missions

On March 1, the Secretary Gutierrez noted to the Senate Appropriations Subcommittee on Commerce, Justice, and Science: “Many people see the Department of Commerce as a conglomerate with diverse and distinct missions. While the Department’s bureaus encompass broad, but distinct, areas of the American economy, their *core mission is U.S. competitiveness.*”

Indeed, the Department is the one cabinet agency with this critical mission. This is not a mission one saw in departmental documents thirty years ago. U.S. competitiveness was not a question, not even a term people used, it was assumed. U.S. markets were largely internal, and when we interacted with the world, we dominated.

The economic world as we once knew it has been transformed, it’s become far more global, competitive, and dynamic in nature. U.S. imports now account for 16 percent of Gross Domestic Product, compared to four percent in 1960. U.S. firms are faced with strong foreign competitors in most every field; they increasingly find it in their interest to source goods and services beyond our shores. Manufacturing as a percent of employment has declined significantly, from 27 percent in 1960 to 10 percent in 2005. And the amount of churning in the economy, firm startups and closures, workers hires and fires, has grown. Once upon a time, most regions of the nation could take their economic structure for granted—Detroit for autos, Rhode Island for jewelry and electronic components, North Carolina for furniture, and so on—but that is no longer the case.

So I believe the Secretary’s statement, that the core mission of Commerce Department agencies is stimulating U.S. competitiveness, is correct. At the same time, I find it restrictive, for I see two other key missions as well.

A traditional mission of the Department has been to promote *business development* of all types and sizes across the U.S., including firms not involved in international competition, such as medical offices, restaurants, and convenience stores. The Department has an important role in making American markets at all levels—from the nation down to the neighborhood—work better so entrepreneurship can thrive and people can get the goods and services they want and need. The Economics and Statistics Administration is the nation’s primary provider of statistics that businesses, large and small, use to make decisions about where to locate and what goods and services to provide. And of course, the Minority Business Development Administration has a key role with regard to this mission.

I believe that the Department has a third mission, rarely acknowledged, but extraordinarily important for the functioning of these United States: *To enable efficient, effective, and fair government* at all levels—federal, state, and local.

- The Department, as the home of the Census Bureau, is a guardian of our democracy; it is responsible for the decennial census, the constitutionally mandated function (Article 1, Section 2) that determines the apportionment of seats in the House of Representatives and Electoral College votes among the fifty states.
- The Department—through the Census Bureau and the Bureau of Economic Analysis (BEA)—produces the statistics on which Congress and federal agencies depend in order design, implement, and evaluate a myriad of policies and programs in every realm, including economic, emergency preparedness, education, health, housing, transportation, and law enforcement. About \$300 billion (over 10 percent of the federal budget) is annually distributed to states and localities on the basis of census figures; \$215 billion is distributed on the basis of BEA statistics. Members of Congress would not know their own constituencies—who they are and how they are doing—without the Department.
- The fifty state governments and over 87,000 local governments rely on the Census Bureau and BEA to give them the accurate, objective data they need to understand the characteristics of their residents and economy, assess public needs, and make intelligent investment decisions in all realms of public policy.

I believe it is highly important to elevate awareness of this third mission in the Department’s own mind as well as that of the Congress. Federal, state, and local users of Commerce data know full well of their importance. Historically, however, their value, and the centrality of the Department’s role to the functioning of our democracy and our federal system, has not been fully appreciated by Congress and the Department itself.

The three key Department missions, then, that I see are stimulating U.S. competitiveness, facilitating business development, and enabling fair, effective, and efficient government at all levels. So I will rename Commerce as the “Department of Seas, Skies, Commerce, and Our Federal Form of Government.”

## Information as a Critical Policy Tool

I want to preface my remarks by laying out a frame for my testimony—the role of information as a tool for fulfilling the Department’s missions. Essentially, government has five types of domestic policy tools available to influence individual, business, and government actions:

- money (e.g., grants, tax credits, loans),
- regulation,
- information (e.g., statistics, research, analysis),
- facilitation (creating networks, bringing people together), and
- procurement (e.g., small business set asides).

The art of public policy is to identify the key barriers to achieving desired goals, such as competitiveness, and then match the nature of the problem with the right tools.

For many of the issues faced by the Department across its three missions, **information** is the most appropriate tool. By information, I mean to include statistics, knowledge creation (research and analysis), and knowledge dissemination (technical assistance).

Information tools have the attractive characteristics, in these times of budget tightness, of being very low cost and providing very high return on investment, often influencing the functioning of our entire economy. With significant advances in information technology, the cost of manipulating data and accessing information has substantially decreased in cost. Information is a public good—once created, it is available to multiple users (in the case of data, thousands and millions of users). Information is a highly pliable resource, available to a wide variety of market actors for a wide variety of uses. Moreover, information provides the foundation, the seed corn, for intelligent use of the other types of tools, such as grants and regulation. Without adequate information, we are competing internationally, we are promoting business development, we are operating government ***in the dark***.

As I will discuss, the impact of this small department is huge. If the public understood that the non-NOAA part of Commerce was less than one-tenth of one percent of the federal budget, they would be surprised, because the work of the Department permeates so much of public policy. This high level of impact is due to the fact that a good part of the Department focuses on generating and disseminating information.

## National Competitiveness

The Department well understands that the nation’s competitiveness rests not on low labor cost, but on high value added, our capacity to generate unique and desirable products and services. To do so, the nation must depend on innovation, knowledge development, a skilled workforce, and a technologically advanced, efficiently designed physical and communications infrastructure.

However, when I look at how the Department is addressing its competitiveness mission, I am struck by its underutilization, sometimes intentional, of information to frame and implement policy.

In particular, I am concerned about the absence of a strategic assessment of the nation's competitive strengths and weaknesses, one that can serve as a framework to guide its policies and programs. The Department's newly released strategic plan is remarkable for a complete absence of discussion of the nation's competitive position, a strategic assessment of our specific strengths and weaknesses, and how the Department will sustain the former and address the latter.<sup>1</sup>

The Department's Economic Development Administration requires regularly updated, analysis-based regional plans, and Department would do well to follow that model.<sup>2</sup> While I understand that the International Trade Administration (ITA) is adjusting its orientation from trade to competitiveness, a satisfactory shift is not immediately evident from a review of budget documents.<sup>3</sup> I suggest this subcommittee strongly encourage the Department to develop a strategic plan based on a current competitive assessment so that in future years the subcommittee has a basis for making intelligent investment decisions on behalf of the taxpayers.<sup>4</sup>

I also am struck by the limited extent to which departmental programs related to competitiveness are operationally linked when there are synergies to be gained. A review of the Department's web site and draft strategic plan indicates that the historic stovepipe approach to Departmental operations remains alive and well. I believe an opportunity to leverage existing assets is being missed, one that allows the sum to be greater than the parts. I identify linkage opportunities when I discuss individual agencies below.

Organizationally, the Department should aim to be as *knowledgeable, innovative, and adaptive* as the companies it wants to help compete internationally. My sense is that a substantial change in culture, perspective, and skill sets is required.

We can categorize the various departmental operating units concerned with competitiveness as either programmatic or statistical. In the former category, I will make comments on the Economic Development Administration (EDA), the Technology

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<sup>1</sup> <http://www.osec.doc.gov/bmi/BUDGET/Strategic07-12.htm>

<sup>2</sup> <http://www.eda.gov/PDF/CEDSFlyer081706.pdf>

<sup>3</sup> The ITA budget request for FY2008 indicates that "ITA also assesses U.S. industry's domestic competitiveness." However, it then goes to focus entirely on reducing regulatory burden, perhaps a useful but certainly a too narrow conception of competitiveness policy options.

<http://www.osec.doc.gov/bmi/BUDGET/08CJB/ita.pdf>, p. 3.

<sup>4</sup> The President's American Competitiveness Initiative focuses on increases in federal investments in R&D and workforce development, but is silent on roles of the various agencies within the Department of Commerce. <http://www.whitehouse.gov/stateoftheunion/2006/aci/>. The Department oversees a Manufacturing Initiative, which produced a strategic plan for that sector in January 2004. However valuable that document may be, its use in the Department's strategic plan and its budget submission are not apparent. Moreover, manufacturing comprises only part of the nation's competitive base and the document's analysis is increasingly out of date.

Administration (TA), and ITA. In the latter category, I will discuss BEA, the Census Bureau, and the statistical unit of the U.S. Patent and Trademark Office (USPTO).

### Economic Development Administration

When EDA was created in the 1960s, economic development was considered to be the work of lagging, mainly rural, regions. However, while the industrialized parts of the nation once could take their economic base for granted, that has not been the case for some time. This is true even for regions with world class industries, like Silicon Valley.

From my work at Brookings and from my twenty years in the field as a regional development consultant, I can say with certainty that the competitiveness of the U.S. economy is very much a function of the competitiveness of our various regional economies. Therefore, I recommend that, without diminishing its role in aiding lagging regions through grants for public works and financial capital, EDA expand its focus to support all regions in the nation in their effort to be competitive.

In particular, I suggest that a series of *information-based* efforts be implemented (in some cases, revived and reinvigorated) to enhance the capacity of every regional development organization. In particular, I recommend that EDA be provided the resources to:

- ***See that federal statistical agencies produce the types of socioeconomic statistics that regional development organizations need.*** To do a proper competitive assessment, development organizations require current, accurate data on population, jobs, workforce, incomes, transportation, housing, education, and other topics. For more than a decade, important regional data series have cut back or eliminated, existing statistical series are regularly threatened, and new opportunities offered by advances in information technology have not been fully taken advantage of. EDA has been silent as data sets disappear; it needs to be an informed, vocal advocate.
- ***Adequately support economic development research***—in order to better understand the dynamics of regional economies and, very importantly, what it takes to become a successful development organization. In FY2006, EDA's budget for research and evaluation was \$800,000, far too small an amount. EDA once had a meaningful research budget to complement its grant funds, one that did much to inform the field over 40 years.
- ***Support electronic peer-to-peer networks among development practitioners that facilitate access to learning and effective practices.*** For years, EDA has held annual national and regional conferences; as useful as they are, EDA can use electronic communications tools to far more productively facilitate real-time exchanges for problem-solving.
- ***Utilize state economic development departments as mechanisms for providing expertise and support to regional agencies.*** These departments are large enough to have economies of scale in delivering services and yet are

close enough to the ground to be able to provide hands-on assistance to regional agencies.

- ***See to the creation of a series on-line references and analytic tools for economic development practitioners.*** Practitioners are in need of useful how-“to” guides and tools. In the late 1990s, EDA began a process of developing such tools (I was part of that effort), but has stopped in recent years.

As information-based programs are relatively inexpensive, the majority of the EDA budget would continue to be grants-based and focused on distressed regions. For many years, the U.S. Code has directed EDA to maintain an “economic development information clearinghouse” (Title 42, Section 3192), a role it has not taken particularly seriously. This section provides this subcommittee with the rationale for giving the agency the means to do so.

In principle, I favor the new approach to EDA regional grants proposed by the Administration, to fold funds from a variety of existing program categories into Regional Development Accounts (RDAs). Implementation of an RDA concept could provide grantees with the flexibility to spend funds as the situation calls for and reduce administrative burden for all parties.

At the same time, I have two major concerns about the RDA proposal. The first is the substantial reduction in the size of the budget. The Administration is proposing a cut in EDA funding from \$280 million to \$203 million, a 28 percent cut. This compares to an FY2000 EDA budget of \$451 million. Evaluations of EDA programs (of which I participated in several in the 1980s and 1990s) demonstrate a positive return on federal public investment. My belief is that the proposed budget is far too small to do the job necessary for purposes of regional competitiveness. I am uncomfortable with a budget request that says the federal government, with a \$2.8 trillion in resources, believes that EDA funding should be about the same as the payroll of the New York Yankees.

Second, I think the Administration proposal makes a drastic error in folding all research and technical assistance grants into the RDAs. A substantial portion of research and technical assistance funds have been used for nationwide purposes—to ascertain nationwide trends in regional economies, to examine best practices in economic development, to provide handbooks and other technical assistance tools. Failing to keep separate funds for national research and technical assistance grants will impede the performance of the information functions I recommend (including that of Section 3192). I ask the subcommittee to see that research and national technical assistance remain distinct programs. Moreover, I would like to see research funding doubled, if not tripled, from the \$500,000 usually allocated.

For the subcommittee’s information, in the last year the Employment and Training Administration (ETA) in the Department of Labor has created a substantial new regional economic development program, WIRED (Workforce Innovation in Regional Economic Development), that is providing \$325 million in grants to 39 regions around the U.S.<sup>5</sup> I

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<sup>5</sup> <http://www.doleta.gov/wired/>.

suggest that the subcommittee ask the Department of Commerce to indicate the relationship between EDA and ETA's WIRED. (I also will say that WIRED is being implemented with principles of flexibility that EDA is seeking with the RDAs.)

### Technology Administration

In its FY2008 budget request, the Administration proposes "terminating the previous Technology Administration and its component Office of Technology Policy, as well as the statutory positions of Under Secretary of Commerce for Technology and Assistant Secretary of Commerce for Technology Policy," and requests \$1.6 million in FY2008 funding for transition. Through FY2006, the Office of the Under Secretary for Technology and OTP had been funded at about \$6 million annually. For FY2007, the Administration and Congress approved a reduction in funding to \$2 million (as an exception in H.J. Res. 20). The Administration first proposed eliminating TA and OTP in the FY2006 budget. Even without Congressional approval, the Department has been in the process of downsizing OTP, from 30 FTEs three years ago to seven today.

The Department further indicates that: "In place of a stand-alone Technology Administration, the Budget proposes to appoint a senior advisor in the Department's Office of Policy and Strategic Planning, and to create a Department-wide Technology Council that will coordinate technology policy activities that are distributed across the Department."

I have a significant concern with this proposal. While Congress intended for the Under Secretary for Technology and OTP to perform a number of detailed analytic and coordinating functions (Title 15, Section 3704) for the purposes of U.S. competitiveness, the Department has not indicated how the mandated functions will be performed and by whom after TA and OTP are eliminated. Nowhere does the Department indicate that the proposed Technology Council will carry out the Section 3704 functions mandated by Congress for analyzing and coordinating technology policies *across the federal government*. Rather, as indicated by the above one-sentence quotation (the only published text available) and Technology Council organization chart, the purpose of the Council is to coordinate existing technology-related policy and program activities *as currently assigned to each Commerce agency* (minus TA). The proposed new senior adviser position and Technology Council are not mentioned in Departmental Management budget documents.<sup>6</sup> According to the House Science and Technology Committee, no legislation seeking a change in section 3704 has been filed.

My concern is that the Administration seems intent not on relocating or rejuvenating, but destroying an information asset of potential valuable use in competitiveness assessment. Congress intended for TA to constantly look at the nation's technology policies broadly and deeply, to frame the problems and propose solutions. OTP has been composed of professional, non-political career staff. Its political appointees and staff also has played

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<sup>6</sup> To confuse matters, the Department's draft strategic plan for FY2007-2012, released March 2, 2007, indicates that TA and OTP will continue to exist and perform their current functions over the six-year timeframe of the plan.



important role in galvanizing focus on technology policy for competitiveness and as a point of contact for industry interested in and concerned about federal technology policy.

In contrast, the proposed Technology Council will be comprised of political appointees or their designees; each will be concerned only with representing its agency's interests and responsibilities. No member will have a mandate to look at the nation's technology policies broadly and deeply, including the senior adviser, whose concern would be Department policy. While the senior adviser could serve as a point of contact for industry, that person cannot replace an office of 30 analysts.

To illustrate the problem: PL 106-404 charges the Secretary with providing Congress with an annual report on technology transfer activities across the federal government, an important aspect of competitiveness. Production of this report has been assigned to OTP; the report is produced by receiving a technology transfer activities report from each federal department, summing across the government, and providing analysis of trends and issues. An OTP staff person has been responsible for chairing an interagency committee to develop the reporting protocol and for producing the annual report. Cutbacks in OTP staff have resulted in this report not being provided to Congress for the past two years; the latest published data are from 2003. Question: under a Technology Council, how will this Congressionally mandated technology transfer report be produced?

Similarly, due to lack of funds, OTP has stopped producing its regular series of state science and technology indicators, highly valued by those in the field.

It may be time for a rejuvenation of the institutional framework for carrying out the Section 3704 functions; I am not arguing that OTP must be saved as is. However, the proposed Technology Council does not appear to fulfill statutorily required functions. These functions appear largely as valid today as they were when they were approved in the late 1980s. I encourage this subcommittee not to approve the Department's request to eliminate TA and OTP without a discussion regarding how the Department intends to carry out the technology policy functions outlined in Section 3704.

#### National Institute of Standards and Technology

While the National Institute of Standards and Technology (NIST) is a federal laboratory that primarily carries out intramural research, it manages two operational programs aimed at promoting U.S. business competitiveness, the Advanced Technology Program (ATP) and the Manufacturing Extension Partnership (MEP). The Department's FY2008 budget indicates that ATP (\$73 million in FY2006) will be eliminated and that the budget for MEP will be cut by over half (from \$111 million to \$46 million).

My co-panelist Marsha Schachtel will speak in detail about the value of these two programs. I simply will say that I believe that they have a valuable important role in promoting U.S. competitiveness and deserve to be funded at previous levels. A review of material on these programs indicates that implementation has improved, evaluations are

positive, and holes in the market for innovation financing and industrial extension services exist that need to be addressed.

I would like to elaborate on one point, however. The ATP Economic Assessment Office (EAO) is well regarded in the field as a source of technology innovation data and analysis that can inform innovation policy, a role that goes well beyond review of ATP grant statistics.<sup>7</sup> The elimination of EAO as proposed would be another major loss of a valuable informational asset in the nation's competitiveness effort.

### International Trade Administration

I understand that under a previous Under Secretary, ITA began reorienting its focus from international trade to competitiveness more generally. However, as noted previously, the FY2008 budget request characterizes this shift as a focus on reducing regulatory burdens. As I will illustrate, I believe that ITA has the potential to serve as the focal point of a broad departmental competitiveness effort based on information and analysis.

ITA's Manufacturing and Services (MAS) unit is a 237-person organization that analyzes "virtually all industry sectors of the economy." I believe the MAS experts could provide the foundation for the competitive assessment the Department now lacks. Between 1959 and 2000, MAS annually published *U.S. Industrial Outlook*, a sector-by-sector assessment of trends and the nation's competitive position. (The last version examined 54 industries.) This publication was a valuable resource for businesses and economic development agencies across the nation. (As a development consultant, I was a regular user.) The types of assessments provided in this publication could serve as the foundation for a regularly updated competitive analysis. Therefore, I recommend that this publication be revived and utilized in new ways. As an information program, the overall cost is minimal and the benefits quite large.

I have a concern about the lack of linkage between MAS experts and EDA. It would be quite valuable for EDA grantees to gain access to MAS industry expertise appropriate to their region so that they are better able to promote effective regional development sector strategies.

The Assistant Secretary for MAS chairs a Working Group on Manufacturing Competitiveness (IWGMC) "to coordinate the implementation of the recommendations from the 'Manufacturing in America' report (2004), discuss competitiveness issues, and develop new initiatives that will carry the Manufacturing Initiative forward." The IWGMC is comprised of 17 federal departments, and focuses on three manufacturing issues—regulatory impact analysis, workforce development, and technology transfer.<sup>8</sup> It would be worthwhile for this subcommittee to examine the extent to which the IWGMC has been coordinating with Department agencies involved in manufacturing competitiveness on a day-to-day basis, particularly EDA, MEP, and OTP. The Department's draft strategic plan does not list IWGMC as a cross-cutting program within

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<sup>7</sup> [http://www.atp.nist.gov/eao/eao\\_main.htm](http://www.atp.nist.gov/eao/eao_main.htm)

<sup>8</sup> <http://www.manufacturing.gov/interagency/interagency.asp?dName=interagency>

the Department, and a review of the Department's web site does not reveal interagency coordination within the Department with regard to manufacturing competitiveness.

In general, I suggest that the subcommittee have a conversation with the Department regarding the nature of new ITA role focused on competitiveness. The subcommittee may want to encourage the Department to have ITA serve a lead role based on information, analysis, and active intradepartmental coordination. In addition, the subcommittee might have the Department consider creating a Competitiveness Council structured similarly to the proposed Technology Council, with ITA in the lead, but with a broader purview of coordinating and aligning the various parts of the Department involved in U.S. competitiveness.

### Bureau of Economic Analysis

The Department's statistical agencies provide critical information for enabling the nation's competitiveness. Our ability to describe and explain where we are economically, where we've been, and where we want to go depends on our ability to produce statistics. Numbers are like electric lighting; without them, policymakers are working in the dark.

BEA is a jewel in the Commerce Department. With its modest budget (\$75 million in FY2006), BEA has a direct, highly positive impact on the functioning of the entire U.S. economy. Its return on taxpayer investment is approaches infinity. More than any other Commerce agency, the work generated by BEA is utilized on a day-to-day basis by the White House, OMB, the Council of Economic Advisers, the Federal Reserve, and the Treasury Department to set national economic policy. Moreover, BEA's regional statistics provide an essential underpinning to the work of state and local development agencies across the U.S. As the nation's competitiveness is really a function of regional competitiveness, accurate, current regional statistics are crucial.

For the past number of years, BEA has been on a tight budget, tight being \$6-8 million under what they truly need. Think about how small a number that is. Let me give you two examples of the cost to our competitiveness of insufficient BEA resources.

BEA has lacked resources to fully track the activities of multinational corporations in general and offshoring activities in particular. For the purposes of national competitiveness, our decisionmakers need these data.

For some years, BEA has been interested in producing a Gross Domestic Product (GDP) figure for each metropolitan area. BEA now produces GDP for the nation, of course, and for each state. However, regional economic developers have been hamstrung because they cannot see the full dimensions of their particular economy, above and beyond jobs and personal income; they cannot answer the question: which industries are responsible for what portion of the total economy and what are the trends over time?

The cost of producing the most accurate GDP estimates for over 300 metro areas?: \$1 million. Has BEA had the money to do this work critical to our nation's competitiveness?

No. Out of a sense of mission, BEA staff are creating alternative estimates using existing resources, but these will not be as accurate or as detailed as would be possible if \$1 million were available.

I strongly recommend that the subcommittee support full funding for BEA.

### Census Bureau

While the Census Bureau is most well-known for its population statistics, its economic statistics division plays two critical roles with regard to the nation's economic competitiveness.

First, this division collects the detailed industry data that BEA needs to develop its estimates. The primary data sources are the Economic Census (carried out every five years, including in 2008 for the 2007 calendar year) and a regular series of industry surveys. For want of sufficient funding, unfortunately, the nation lags in our ability to analyze the now dominant services portion of the economy. Without good annual services data, BEA cannot fully do its work. The proposed budget seeks to make up that gap. The cost?: all of \$8 million.

The economic statistics group of the Census Bureau also provides data for quite important for regional competitiveness, on jobs by industry, on entrepreneurship by race, gender, and industry, on births and deaths of businesses in the state and metro economies, and on manufacturing investment.

As with BEA, I believe that full funding for the Census Bureau's economics division is essential to the nation's economic competitiveness.

### U.S. Patent and Trademark Office

The U.S. statistical system is very idiosyncratic and decentralized; important statistics are produced in a large number of agencies. One of these agencies is the USPTO, which generates patent numbers by geography. For the purposes of technological competitiveness, patent figures are quite important, you might imagine, for they let us assess economic regions by this form of innovation output. Unfortunately, though, the USPTO treats its statistical functions as a secondary priority. The last available dataset on patents by metro area is for 1999. While the USPTO is self-funded, I encourage this subcommittee to ask the Department to see that the USPTO produces the range of patent statistics by geography that are needed by the nation's regional economic development organizations.

### Summary—The Department's Valuation of Information as an Asset for Competitiveness Policy

The review above strongly suggests that the Department is at times indifferent or hostile to using information as a program tool—for creating and disseminating knowledge and

analysis. In five instances identified here—EDA’s research and national technical assistance efforts, OTP, MEP, ATP’s Office of Economic Assessment, and ITA’s *Industrial Outlook*—the Department has been actively seeking to terminate or substantially downsize program agency information-oriented efforts. The total cost of these various information programs is quite small. I suggest that the subcommittee explore with, and provide guidance to, the Department with regards to the proper role of information programs in the effort to promote competitiveness.

I am pleased to see that the Department does recognize the high value of economic statistics for the purposes of competitiveness.

#### Other Missions – Business Development and Fair, Effective, Efficient Government

I suggest that the Department missions of enabling business development and effective, fair, and efficient government should be seen as on par with competitiveness. Their fulfillment is important to our democracy, our communities, and the efficient, effective use of our tax dollars.

These missions are carried out through several Department agencies, particularly the Census Bureau, BEA, and the Minority Business Development Administration. I will focus my remarks on the Census Bureau and BEA, which provide the statistics the nation needs to achieve these two ends.

The data produced by the Census Bureau and BEA inform decision-making in every corner of the nation’s public and private sectors:

- how to apportion Congress;
- where to distribute federal funds;
- the need for and the design and evaluation of federal programs;
- planning and investment by state and local governments in education, transportation, criminal justice, emergency preparedness, health care, and so forth; and
- decisions by businesses, ranging from mom and pop stores to Starbucks and Wal-Marts, regarding startup, location, product mix, and workforce.

The requested Census Bureau budget for FY2008 is \$1.2 billion, 45 percent of the non-NOAA part of the Commerce Department budget. This is a substantial increase from the FY2007 budget request, due largely to the approach of the 2010 Census. As you know so well, Mr. Chairman, the Census Bureau budget waxes and wanes on a decade-long cycle, peaking in the year of the decennial census. As such, it becomes a tempting target for Members not as knowledgeable of those on this panel, a target for shifting funds to programs that have greater political salience and clout, such as in the Justice Department. In the last Congress, Mr. Chairman, you, former Chairman Wolf, and your panel colleagues made an extraordinary bipartisan team in seeking to defend the Census Bureau budget from these raids on the floor of the House, and those of us in the statistical community as enormously grateful for your efforts. I trust that you and Mr.

Frelinghuysen will work together in the same way to educate Members regarding the importance of the Census Bureau's data to Congress, the federal government, and their districts, and to defend amendments reducing the proposed budget as necessary.

Subcommittee members should keep in mind that unlike many federal programs which can be temporarily downsized without irretrievable harm, preparations cannot be delayed for the 2010 Census and the 2007 Economic Census without major negative consequences. As you recognized, Mr. Chairman, with the approval of an exception for the Census Bureau in the FY2007 continuing budget resolution, a funding gap of \$50 million in 2007 would have cost the nation \$1 billion by 2010 and brought about a less accurate count. In addition, annual economic and demographic programs are not as malleable as one might think—once a program is shaved beyond a certain point, it has to be scrapped; even if it is reconstituted at a later point in time, a large data gap results.

The President's budget request for the Census Bureau as a whole is adequate for the nation's needs and I urge this subcommittee to support full funding. As I will demonstrate, the cost of many Census programs is quite small, a few million dollars each, and the return on investment is enormous, in the billions of dollars.

I wish to highlight for the panel a sample of important Census Bureau programs:

- 2010 Census – necessary for apportionment of House seats and Electoral College votes, and the annual distribution of about \$300 billion in federal funds.
  - A key issue: While the President's budget is generally adequate for the 2010 Census, it is important for this subcommittee to see that sufficient funds are provided for the development of the 2010 Census Partnership Program, an effort to enlist the involvement of a wide range of stakeholder groups that have constituencies down to the local level across the country. In 2000, this program involved 140,000 organizational partnerships and was quite valuable in stimulating participation by hard-to-reach populations.<sup>9</sup>
- American Community Survey (ACS) – the newly implemented annual replacement for the once-a-decade decennial census “long form.” The ACS provides details down to the neighborhood level on a variety of topics, including employment, housing, transportation, education, and income. Users include every level of business and government. (Annually updated profiles for each Congressional District are now available.) A wide range of federal funds are geographically distributed on the basis of ACS data.
  - Key issue: Over the last several years, ACS funding sufficient to cover group quarters (e.g., nursing homes, military bases, and college dorms) has been at risk; the cost of covering group quarters is about \$15 million. While sufficient funds were available for FY2006 and (thanks to the CR) will be for FY2007, sufficient funds were not provided in

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<sup>9</sup> <http://www.census.gov/dmd/www/partner.htm>

FY2005. As a result, the 2005 ACS profiles only have data for households; Members cannot see data on their constituency living in group quarters. The FY2008 request contains adequate funding for group quarters; the subcommittee should see that the ACS receives the President's full funding request.

- Survey of Income and Program Participation (SIPP) – tracks the need for and utilization of federal transfer programs. Due to previous budget cuts, SIPP is being transformed into a less expensive Dynamics of Economic Well-being (DEWS).
  - Key issue: SIPP needs funding sufficient to close any chronological gap between the end of SIPP and the start of DEWS. Census Bureau budget documents suggests that nearly \$20 million in FY2006 funds allocated to the Survey of Program Dynamics (SPD) and the State Children's Health Insurance Program (SCHIP) were not spent. The subcommittee may want to examine the potential use of these funds for SIPP.
  
- Local Employment Dynamics (LED) – an innovative initiative that allows analysts and decisionmakers to see job churning (hires and fires) and transportation flows (where people live in relation to where they work) for nearly all workers in an area. LED has the potential to be transformational for workforce and economic development, emergency preparedness, and transportation planning.<sup>10</sup>
  - Key issue: The optimal annual budget is about \$9 million, but the Census Bureau is not able to provide full funding. Without moving funds from other demographic programs, the subcommittee should consider providing LED with adequate operational funding.
  
- Federal expenditure reports by geography – The annual Consolidated Federal Funds Report (CFFR) describes the distribution of federal funds by all types (direct payments, grants, contracts, salaries, and so forth) by geography. The Federal Assistance Award Data System (FAADS) tracks individual federal grants. Among other uses, these reports are important for Congressional oversight and program evaluation.<sup>11</sup>
  - Key issue: These efforts need adequate funding. The current budget is about \$2.4 million; only \$600,000 comes from appropriations, the rest is in the form of contributions from federal agencies. For years, the Census Bureau delivered the CFFR 180 days after the end of the fiscal year; due to a recent lack of resources, the FY2004 report was 15 months late and the FY2005 report is still not available. The subcommittee should ensure that the Census Bureau's Governments Division has the funds it needs to produce the reports in a timely manner.

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<sup>10</sup> <http://lehd.dsd.census.gov/led/>

<sup>11</sup> <http://harvester.census.gov/cffr/index.html>

- Daytime Population Estimates – The Census Bureau has prepared estimates of daytime population, using 2000 data.<sup>12</sup> Daytime population estimates are valuable for emergency preparedness and transportation planning.
  - Key issue: The Census Bureau needs adequate funding to update these statistics and make them more sophisticated.

I suggest one additional topic for the subcommittee to discuss with the Department. In November, the director and deputy director of the Census Bureau simultaneously submitted their resignations. While a new deputy director, a career civil servant, is in place, the current director remains at work while the search for a new director continues. Professional, committed, non-partisan leadership for the Census Bureau is imperative as we approach the decennial year; effective use of the funds invested in the Census Bureau by this subcommittee depends on it. However, finding appropriate leadership may be difficult as there are only 22 months remaining in this Administration; few qualified people find this circumstance attractive. I encourage the subcommittee to ask the Department about the circumstances that led to the dual resignations and the steps the Department is taking to find the necessary leadership.

While BEA data are used primarily for competitiveness, the agency's regional statistics also are used to distribute \$215 billion in federal funds, mainly for Medicaid. This is yet another reason why the subcommittee should provide full funding for BEA.

### Conclusion

Mr. Chairman, I hope you and the members of the subcommittee have found helpful this series of observations and recommendations regarding the Department of Commerce FY2008 budget request.

I know I have made a number of requests and recommendations for the subcommittee's consideration. In closing, I wish to highlight several and add one more. The first request is to see the Department as having the three important missions I outlined, and to fund it sufficiently so that it may fulfill these missions. The second is to ask the Department to prepare over the coming year an initial strategic plan that is based on some form of competitive assessment, and to regularly update and expand that plan in future years.

The third request is to recognize the high cost-effectiveness of information-oriented programs and carefully and critically consider the Department's request to eliminate such programs. The final one is to ask the Government Accountability Office (GAO) to provide you with a report on the return to the nation on public investment in federal statistical programs, so that you may make more informed budget decisions.

Again, I thank you very much for your invitation, and welcome any questions you might have.

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<sup>12</sup> <http://www.census.gov/population/www/socdemo/daytime/daytimepop.html>