

Testimony of the Honorable Don Evans
Secretary of Commerce
Joint Economic Committee
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Chairman Saxton, Vice Chairman Reed, Members of the Joint Economic Committee, I appreciate being here today to discuss ways the Congress and the Administration can better measure our economy.

With the President's budget request for the Census Bureau and the Bureau of Economic Analysis (BEA) you will see a wide range of key economic data sooner – the release of international trade data, for example, will be moved up by 20 days. Gross Domestic Product estimates will be subject to smaller revision. We will measure electronic commerce and the services sector quarterly. And we will build a strong statistical foundation with the 2002 Economic Census and the American Community Survey.

The Department of Commerce is responsible for some of the Nation's most important economic statistics. The Department's two statistical agencies -- the Bureau of Economic Analysis and the Census Bureau -- produce measures that have become a map helping us chart our economic course.

Americans use economic measures to make such important decisions as refinancing a home, planning for retirement, and investing.

Businesses use economic data from BEA and the Census Bureau every day to determine investment strategies, inventory levels, and business locations.

And governments use these measures to determine monetary policy, forecast public spending and revenues, and distribute billions of dollars in Federal and State funds.

The economic measures produced by BEA and the Census Bureau have become so ingrained in our decision making that some might take their existence for granted. However, during the 1990s, the economic statistics infrastructure suffered. While the U.S. and world economies underwent enormous structural change, BEA and the economic programs at the Census Bureau were unable to keep pace.

Programs were dropped and the accuracy of measures deteriorated. President Bush and I seek to reverse this trend and restore the confidence and faith in our nation's economic measures. President Bush's first budget requested important funding to address critical measurement problems. He and I continue to support funding levels that not only allow us to catch up but also begin to help the agencies see around the corner and anticipate economic changes that will need to be measured. Unfortunately, while these agencies are still striving to catch up and make urgent reforms, the FY 2003 funding level approved by Senate appropriators last week is

significantly below the President's request. We simply will not be able to undertake all of the initiatives I will talk about later with the Senate's flat funding level.

President Bush and I firmly believe we must transform our economic indicators from ones that measure the economic structure of the past to ones that are forward looking. We need a statistical system that is able to anticipate the structural changes in our dynamic economy so that it can provide the most accurate, timely and up-to-date information not only for policymakers here in Washington, but, just as importantly, for the business in New Jersey or the family in Rhode Island.

I would like to discuss what the Department of Commerce's statistical agencies produce and how those data are used. Next, I will review why we need to continue to improve our indicators, even though some improvements already have been made with previous funding. I will talk about our initiatives for FY 2003 that will enhance the delivery of key data. And, finally, I will mention two programs underpinning the Federal statistical system now and in the years ahead for which funding next year is critical -- the Economic Census and the American Community Survey.

Just a few weeks ago, when the Commerce Department's Bureau of Economic Analysis announced a five-tenths of one percent revision to the Gross Domestic Product, the *Washington Post* reported a rise in stock indexes as a result. Our data are reported, almost daily, on page A2 of the *Wall Street Journal* along with each release's broader effects. On the days when our main indicators are released at 8:30 a.m., commentary and interpretation on the business news networks are immediate.

Those headlines and attention are visible results of the constant and important internal work of top-notch mathematicians, statisticians, and economists at BEA and the Census Bureau.

Before I go on, I would like to address the uses of Federal statistical information by business, as well as businesses' responsibilities. Companies rely on these data to determine how they are doing within their own industries in terms of market share trends or fast and slow growth product trends. The data help companies identify market opportunities, site locations, sales territories, and potential customers. The data help companies evaluate investment opportunities. And, of course, the data are indispensable for knowing the current state of the economy.

Three months ago, reporting by large semiconductor companies in the Census Bureau's monthly survey of manufacturing activities dropped to the point where the Bureau had to discontinue publishing data on semiconductors. As a result, the Census Bureau can no longer produce bellwether sales and inventory data for this important industry. Moreover, the absence of semiconductor data leaves a hole that must be filled by estimates in BEA's GDP equation.

I consider participation an issue of corporate good citizenship, and I am hopeful that American business will work with the Census Bureau and other Federal statistical agencies to complete these surveys and deliver the data our nation needs. Ultimately, that participation yields information vital to informing decision making by business, government, and the Nation at large.

Our principal economic indicators are released from BEA and the Bureau like clockwork. At 8:30 a.m. and 10 a.m. at least 180 times a year, we can count on accurate data being released in a timely and secure manner. In fact, BEA released the second quarter 2001 international transactions report on time online on September 12, 2001, despite obvious disruption and the closure of the Government the day before.

Indeed, these data are available online and we see great interest. On busy release days 7,500 different users log onto the economic statistics pages at the Census Bureau's Web site. BEA's Web site sees 27,000 unique users each week. The Commerce Department recently launched www.economicindicators.gov that sends the BEA or Census Bureau release – free of charge – to subscribers' e-mail addresses.

Professionals at BEA and the Census Bureau are working these small miracles every day, but they intend to do even better. For starters, our statistical agencies need to measure an information economy -- not solely the industrial economy.

It is not acceptable for our statistical agencies to lag behind a rapidly changing economy. They must be able to quickly respond to important shifts in our economy and provide the information that reflects shifts, which are sometimes subtle, sometimes dramatic. It is vital that households, businesses, and policymakers know where our nation's economy stands, and that they know it now.

BEA and the Census Bureau must be positioned to anticipate economic change. The U.S. economy has undergone extraordinary evolution. Industries that did not exist a generation ago now lead economic growth.

The Census Bureau is the primary source of data for much of the Federal Government. It is the place other agencies go for their basic economic, social, and demographic data. Most people think of the decennial census when they hear the words "Census Bureau," but the Bureau's economic programs are invaluable.

Much of the Federal Government's economic statistics' strength rests upon the bedrock surveys taken and data assembled by the Census Bureau. Almost three-quarters of all the data used by the Bureau of Economic Analysis in the development of its Gross Domestic Product estimates comes from the Census Bureau. BEA's input/output tables, Gross Domestic Product by industry, and balance of payments estimates rely heavily on Census Bureau data.

Likewise, the Bureau of Labor Statistics (BLS) needs Census Bureau data or data collected by the Census Bureau for BLS to calculate the producer price index, productivity, employment, and price measures.

The Federal Reserve Board uses Census Bureau data to develop its index of industrial production, in its measure of capacity utilization, and in its flow of funds report.

Close to 50 different Federal agencies rely on the international trade statistics published by the Census Bureau.

To make the most out of these statistical agency relationships, the Administration has proposed legislation authorizing data sharing of business data among BEA, the Bureau of Labor Statistics, and the Census Bureau. This initiative will strengthen the Government's protection of all confidential data, permit the statistical agencies to learn from each other, and reduce the burden on business of data collection programs. Moreover, enhanced data sharing would improve the reliability and accuracy of key business statistics such as GDP, employment, productivity, and industrial production and would permit the statistical agencies to resolve existing and growing data anomalies that raise questions about the accuracy of economic statistics.

Nearly 30 percent of single-establishment businesses had inconsistent four-digit standardized industrial classification codes in the separate business lists maintained at the Census Bureau and at the Bureau of Labor Statistics. This seemingly minor classification issue brings into question the ability to track accurately industry output, employment, and productivity trends. Improving the quality of these data is central to maintaining the foundation for our understanding of the economy and economic policies.

Beyond collecting and generating the data that serve as the foundation of Federal economic statistics, the Census Bureau produces principal economic indicators as well as other monthly and quarterly series that gauge the health of the economy. Our sense of the state of retail trade, wholesale trade, manufacturing activity, construction, and international trade in goods is derived from the monthly reports issued by the Census Bureau.

Often overlooked is the fact that much of our understanding of the role of governments, at all levels, in our economy also rests upon the data collected and published by the Census Bureau. The Census Bureau produces the basic data on State and local Government revenues and expenditures.

In turn, BEA uses Census Bureau data and indicators for its products, which influence decisions and forecasts along the way.

Let me take a moment to note that BEA is a relatively small agency but provides an impressive bang for the buck. President Bush noted this in his FY 2003 budget request when he cited BEA's statistical programs as one of the most effective programs in the Federal Government and held it up as an example for other agencies.

The Commerce Department recognized the development of BEA's Gross Domestic Product and national economic accounts as the Department's single greatest achievement of the 20th Century. And a recent private study named BEA's GDP release as one of the three most significant statistical releases impacting financial markets.

Federal budget forecasts developed by the Office of Management and Budget (OMB) and the Congressional Budget Office (CBO) are based, in large part, on estimates of GDP and personal income produced by BEA.

Businesses use BEA and Census data as part of their decision-making process. In addition to using macroeconomic data for investment decisions and long-range planning, detailed data also are used. For example, national retail outlets use the 80-plus household spending categories to help determine the mix of products to offer customers in their stores.

BEA's data move stock prices, interest rates, and exchange rates. They are vital to every American who runs a business, saves for retirement, or takes out a mortgage on a home.

It does not take long to connect the dots between data collection, calculation, analysis and real decisions -- whether by the Federal Reserve Chairman or a homeowner.

While BEA's estimates of GDP are among the most timely and accurate in the world, small errors in measured GDP growth have an enormous effect on the budget forecasts and thus policy decisions.

It is estimated that if the trend growth rate for real GDP is one tenth of one percentage point off, the 10-year budget projections miss the mark by \$230 billion.

And that is really what I hope we can discuss today: how BEA and the Census Bureau can gather, calculate, and analyze the data even sooner and more accurately.

Decisions on monetary policy depend on the accuracy and timeliness of many of the estimates from BEA. A review of the Fed's Monetary Report to the Congress or the minutes of the Federal Open Market Committee reveal how heavily the Fed relies on BEA's estimates of GDP, prices, investment, consumer spending, and income data.

BEA estimates are used to distribute over \$150 billion in Federal funds to State and local Governments and virtually every U.S. State uses BEA's quarterly State personal income estimates to either limit the rate of growth in budget or expenditures or to project State revenues and expenditures. In fact, 17 U.S. States, representing nearly half the U.S. population, have constitutional or statutory limitations on the growth of State spending tied to BEA's State personal income estimates.

We are grateful for continued Congressional support and, rest assured, BEA and the Census Bureau are moving forward and spending the taxpayers' dollars wisely.

The Census Bureau and BEA work hand in hand. BEA is the Census Bureau's most important customer and the two agencies are in contact every day. The staffs of the major production divisions at the Census Bureau meet routinely with their counterparts at BEA. Each year, managers collaborate and ensure that our statistical infrastructure is efficient and productive.

Indeed, BEA's specific needs are very much reflected in the Census Bureau's budget initiatives for FY 2003. An interagency team of BEA, BLS, and Fed officials had input on the Census Bureau's FY 2003 budget initiatives.

BEA is heavily dependent on source data from the Census Bureau so it cannot improve its programs without complementary improvements at the Census Bureau. And, with previous appropriations, we are doing both. But more work remains.

Until the last couple of years, BEA's budget had been relatively flat for a decade. Funding since FY 2000, has allowed BEA to enhance the GDP and national accounts by facilitating or improving estimates of software investment, Government retirement plans, and banking services. This year, BEA will incorporate new price indices for brokerage services and will improve estimates of wages. Working with the Census Bureau, BEA is getting a better picture of manufacturing, trade, and services to improve estimates of demand expenditures. These changes have helped to significantly improve the quality of BEA's core statistics.

In FY 2001, Congress increased the Census Bureau's economic statistics program by \$2 million to continue its production of quarterly data on retail electronic commerce sales and to introduce annual measures of e-commerce transactions for the retail, wholesale, and manufacturing sectors and for selected service industries. Annual data for 1998, 1999, and 2000 already have been published along with a special study of the use of e-business processes in manufacturing plants. Today, the Census Bureau is the only source of official Federal statistics on the role of e-business in the U.S. economy, an activity with a value of about \$1.1 trillion in 2000.

Two years ago, Congress also appropriated an additional \$1 million, which permitted the Census Bureau to strengthen its efforts to persuade American companies to switch from filing paper versions of the documents required at the time of exporting to electronic versions of the documents. The switch to the Automated Export System or AES makes reporting by exporters quicker and less burdensome and the Government gets more accurate and timely data.

This brings me to the need for several initiatives in the President's budget that will close data gaps and improve the timeliness of our data.

The President's budget for FY 2003 requests \$23.7 million to fund three projects to improve the economic statistics produced by the Census Bureau. Of that total, \$13 million will be directed at measures to improve the quality of export statistics and get the trade statistics published 20 days sooner (from 50 days down to 30). Also, we estimate we are missing from three to seven percent of our exports, and we mean to close that gap.

Right now, approximately 15 percent of our exports are still documented on paper -- an error prone and sluggish process. The goal is to totally automate the export documentation process, which will make it possible to publish the monthly trade statistics almost three weeks earlier than is now the case. Our efforts would be helped greatly with the passage of language to require use of the Automated Export System.

I have placed special emphasis on the timeliness and quality of the trade data. Trade statistics produced by the Census Bureau and BEA are critically important for the development and conduct of U.S. trade policy. These figures are an essential component of the GDP and are also used to identify and quantify U.S. export interests and foreign government barriers to U.S. products.

The same trade data also support U.S. negotiating efforts to lower trade barriers and help us enforce trade laws.

In particularly trade sensitive industries such as steel and lumber, the Census Bureau has expedited data release. Since 1999, the Bureau has released preliminary monthly import statistics of steel mill products three to four weeks before the final report. Just last year, the Census Bureau temporarily released lumber import statistics early, so we could better monitor surges occurring after the expiration of the softwood lumber agreement between the United States and Canada.

We use Census Bureau figures on goods exports and BEA data on service exports to focus resources on areas with the most export potential. State-level trade data are used to determine how different areas may be affected by proposed trade agreements or enforcement actions.

We know we need better control of the goods moving into and out of the United States. On the export side, generating better data in order to help our export control agencies will be an increasing responsibility of the Census Bureau.

The President's budget proposal will give the Nation, for the first time, a measure of economic activity in the service sector on a quarterly basis. Currently, we only measure service sector activity annually and only at aggregate industry levels. We lack the detail necessary to understand what is really happening within service industries and, more importantly, how the service sector is contributing to productivity.

The President's budget request also will fund the collection and publication of detailed data on service activities.

To fill another gap in current statistics, the Census Bureau will start providing annual information on the cost of purchased services and materials for service providing companies. With these data, BEA and the Federal Reserve Board will be much better positioned to develop estimates of the value-added by the major service activities in our economy.

The President's e-business initiative will give us complete annual information on the wholesale sector of the economy, information we now have only every fifth year, plus data on how e-business practices are reshaping the wholesaling function. The initiative would also give us detailed annual information on business expenditures on hardware, software, and communications services. The growing importance of information technology in our economy and the troubles experienced by information technology companies in the last two years make better, more detailed data a necessity.

There is mounting evidence that supply chain relationships are changing across many U.S. industries. The traditional roles of companies are blurring. Companies are overlapping each other's business space. The Census Bureau will start a project to determine how this change is impacting the economy.

At BEA, the President is requesting \$10.7 million in FY 2003 to accelerate the release of important economic measures including international trade in goods and services, annual gross state product, metropolitan area personal income, GDP by industry and annual input-output tables.

As we work to provide the most accurate and timely estimates possible, we also must continue to meet our international obligations by incorporating new international classification systems and providing U.S. economic information in formats compatible with international agreements. This system is known as NAICS, the North American Industry Classification System. And, I might add, we have heard from data users that they need us to reissue previous data series using NAICS. We have been able to do this for many indicators going back to 1992.

One additional initiative that will help the statistical agencies work more efficiently together to anticipate change is to remove the barriers between agencies to share data. The Administration strongly recommends new data-sharing legislation to help strengthen and improve our statistical system.

In addition to the critical initiatives at BEA and the Census Bureau to update our current economic measures, there are two initiatives that are the foundation of the American statistical system – the Economic Census and the American Community Survey.

Economic Census

Every five years the Census Bureau conducts the Economic Census. It is the most comprehensive collection of business statistics carried out by the Federal Government. The Economic Census covers 23 million business locations in the United States and provides information on about 96 percent of the Nation's economic activity.

Right now the Bureau is finishing up preparations to launch the next Economic Census. In December 2002, the Census Bureau will mail five million report forms to American businesses with a due date of February 12, 2003.

There will be 650 different versions of the basic questionnaire, tailored to the characteristics of individual industries. Recipients can respond the traditional way, by filling out a paper questionnaire. For the first time, companies will be able to respond over a secure Internet filing system.

To minimize the reporting burden on very small companies and on sole proprietorships, the Census Bureau will be extracting data from the administrative records of other Federal agencies

to get the basic facts needed on another 16 million small business activities. All of the collection and analysis will be done in 2003 with first data available in the spring of 2004.

ACS

Also facing a key year in 2003 is the American Community Survey or ACS. This is an initiative in the Demographic division at the Census Bureau, not the Economic directorate. Still, like the Economic Census, ACS will provide a foundation for U.S. statistics for the future.

Front-page articles have recently told the story of change throughout America's vast and diverse communities—specifically the change from 1990 to 2000 as measured by the census long form. To nobody's surprise, Americans have changed in the past 10 years.

Sociologists and demographers will analyze these numbers for years. But the data have a more immediate use for policymakers and political leaders at all levels of government who make key decisions that chart the future. These census numbers will help update and establish bus routes, determine the availability of Head Start programs, plan for the educational needs of America's children, and locate everything from elementary schools to veterans' clinics to new roads.

Across America, planners are working right now, not just to get you to work on time, but to get you out of danger when disaster threatens and to get an ambulance or firefighter to your door if it strikes.

Of course, the data also help in the distribution of hundreds of billions of Federal dollars to states and local communities.

That is why we are proposing the American Community Survey. This program is part of our strategy to re-engineer the 2010 Census and will deliver current data, every year, to every city manager, business, highway department, and economic development authority in America. It will also eliminate the long form and improve the accuracy of the next census by allowing the Census Bureau to concentrate its enormous, once-a-decade effort on one goal: counting every person in America.

Even though more information will be available, nothing more is required of individual Americans. No household will be asked to complete a survey more than once in five years. Most will never receive the survey. And Americans can be sure that their confidentiality is protected, just as it is in the regular census.

This program has been tested for the last six years in 31 sites -- rural and urban -- around the country and by a national sample of 700,000 households. The Commerce Department is certain that this program will deliver as promised, and we are encouraged by the results so far. In fact, many local data-users and decision-makers in the 31 test sites already are testifying to the real-life benefits.

If fully funded, much of the ACS data will strengthen the rest of the statistical system, by providing timely data, especially regarding personal income, the value of mortgages, and demographic data about our communities – all of which are important for improving the national surveys sponsored by a variety of agencies.

Again I would like to stress the importance of participation in our surveys. It is imperative to have data from business for an accurate, real-time assessment of the economy.

The Census Bureau gathers data from many of these leading firms on a monthly basis as input into its monthly economic indicators. Participation in the monthly programs is voluntary, a characteristic of the programs that goes back over 60 years. Unfortunately, for a host of reasons, not all companies elect to participate.

For example, of the companies on the most recent Fortune 500 list, 306 qualify to report on one or more of the Census Bureau's monthly reports on the retail, wholesale, or manufacturing sectors. Yet, 87 of the 306 choose not to provide data or provide only partial data in the Census Bureau's monthly collection programs. We need to build closer relationships between the Bureau and the Nation's top companies with the aim of increasing company participation in the surveys that most directly reveal the state of the economy.

Mr. Chairman, Mr. Vice Chairman, we have the best statistical system in the world. BEA and Census Bureau data tell us where the economy has been and where it is going. Decision makers at every level use our indicators to chart their course.

But we can improve. We can speed up trade data by 20 days, which is important in its own right and will give us a more accurate read of GDP. We can measure e-business and the services sector, which have not received attention commensurate with their role in the economy. And we can establish a firm statistical foundation with the Economic Census and the American Community Survey. But there is no question that these improvements will require adequate funding. While I recognize that budget challenges are great this year, I am hopeful we will be able to work with Congress to increase funding for vital economic measures as the appropriations bill moves forward.

I thank you very much for inviting me here today, and I would be happy to take questions.