I'm delighted to have Andrew Reamer as this month's science policy guest columnist. Reamer is a leading expert on the economic statistical agencies and a leading champion. As you'll see in this piece, he brings authority to these issues and is constructive in his recommendations for addressing the issues he identifies. -Steve Pierson, ASA Director of Science Policy, *pierson@amstat.org*

In Dire Straits: The Urgent Need to Improve Economic Statistics

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Current, accurate, detailed federal economic statistics are essential to the proper function and growth of the U.S. economy. Federal, state, and local government policymakers and millions of businesses rely on economic statistics to assess conditions, guide investments, and evaluate results. Insufficient, incorrect, or outdated data can result in mistakes that are costly to the economic vitality and competitiveness of the nation and its regions, cities, and neighborhoods. The availability of good economic data is particularly important in this time of economic recession and uncertainty.

Unfortunately, the economic statistics system is visibly deteriorating before our eyes. A number of existing economic data series has been eliminated, reduced in detail and accuracy, unrecalibrated to account for new benchmark data and methods, or delayed. Consider these examples, particularly in light of current economic conditions:

—The Bureau of Labor Statistics (BLS) Consumer Price Index (CPI) still relies on the 1990 Census to construct its geographic area sample and housing sample.

—The Bureau of Economic Analysis (BEA) will no longer publish metro and county estimates of the gross domestic product and earnings by detailed industry. So, for instance, the Detroit metro area will lose the ability to track auto manufacturing's contribution to the region's economy.

—The BLS will no longer collect jobs data for 65 small metropolitan areas.

—The Department of Housing and Urban Development (HUD) is discontinuing the Residential Finance Survey, which gathers data on mortgage debt, and has cut back the American Housing Survey dramatically, which examines current housing conditions and markets.

—The Federal Reserve Board of Governors eliminated its Survey of Small Business Finances (SSBF).

—The most recent detailed research and development data from the National Science Foundation (NSF) is for 2004.

—The Federal Highway Administration's National Household Travel Survey (NHTS), which guides hundreds of billions in government transportation spending, was delayed for two years and no longer covers long-distance travel.

Moreover, our economic statistics system remains oriented to the mid-20th century manufacturingbased, oligopoly-dominated economy. It does not fully capture the major structural changes of the past several decades, including the enormous growth of service industries; large-scale technological innovation; geographic mobility, increased trade, and global competition; entrepreneurship; corporate restructuring (e.g., mergers, acquisitions, spin-offs, outsourcing, failures); and the extensive transformation of regional economies.

In addition, the statistics system is not taking full advantage of remarkable advances in information technology and statistical methods (e.g., synthetic data). These advances offer agencies once undreamed-of opportunities to create data series that reveal the workings of the nation's economy in breadth, depth, and detail (e.g., tracking business openings and closings, worker hires and fires, and worker flows from job to job by industry and location).

Limitations of Existing Federal Policy

The primary reason for the deteriorating economic statistics system is inadequate funding. A secondary reason is the absence of a strong set of relationships between statistics agencies and data users other than macroeconomic policymakers.

At an annual cost of less than $1.3 billion to guide the workings of a $14 trillion economy and the geographic distribution of more than $500 billion in federal funds, the economic statistics system is one of the federal government's most cost-effective activities. Essentially, the cost of the system is extraordinarily low, and the return on investment is almost infinite. Despite this, federal economic statistics agencies have been subject to significant budget shortfalls, with appropriations flat or declining for almost every one.

As a result, the nation has achieved trivial savings in exchange for inadequate data at a time when good data are sorely needed to guide economic recovery (and in the context of unplanned appropriations of more than $1 trillion for recovery purposes). Consider the following:

—BLS has not updated the CPI using the 2000 Census for want of $10 million.

—BLS must "borrow" $10 million from the U.S. Census Bureau to stave off cutting the sample size dramatically of the Current Population Survey, the primary source for employment and unemployment figures.

—The U.S. Census Bureau needs $8 million to provide full coverage of the nation's service industries.

—BEA will cut metro and county gross domestic product and earnings detail by industry to save $1 million.

—The Federal Reserve will save only $8 million by eliminating the SSBF.

—The NHTS national survey could not have been conducted had the AARP not contributed $500,000 to cover the budget shortfall.

—The U.S. Census Bureau's Local Employment Dynamics program, which has the potential to transform our understanding of how the economy works, has limped along for years on a $2 million appropriation when it needs $12 million to achieve its potential.

A number of factors, including the following, contribute to this troubling situation:

—Budget decisionmakers in parent departments—Office of Management and Budget (OMB)—and congressional appropriations committees do not recognize the enormous return to the nation on small taxpayer investments in statistics.

—In the decentralized statistics system, statistical activities are relatively small parts of multi-billion dollar budgets and, therefore, overlooked. No budget decisionmaker has responsibility for the statistics system as a whole.

—Macroeconomic policymakers have not made it a priority to advocate for adequate funding to improve traditional economic statistics.

JSM Congressional Visits

To take advantage of this year's JSM being held in our nation's capital, the ASA science policy office invites ASA members to visit the offices of their congressional representatives during the last day of JSM, Thursday, August 6, 2009. Participants will be prepped during JSM on Wednesday evening and Thursday morning and shown how to conduct successful meetings with Capitol Hill staffers. Participants also will be provided with materials that will explain to staffers how they can support ASA requests. Our goal is to conduct 4-5 meetings for each state's group. Watch this space for instructions about how to sign up.

—The absence of a coherent set of federal policies to improve economic structure has resulted in a lack of articulate demand for data on structural elements (i.e., industry capacity and competitiveness; regional economic activity; and the building blocks of innovation, entrepreneurship, work force development, physical and financial infrastructure, and community stability).

—Advocates for adequate statistics agency funding are not well-informed or organized, largely because of the complexity and opaqueness of the statistics system and the appropriations process.

—There is no congressional committee to exercise oversight of the economic statistics system as a whole.

—The OMB office charged with coordinating the entire federal statistics system has only five staff workers.

The secondary reason for the gap between data supply and need is the lack of strong relationships between the producers and users of economic statistics. Historically, the three major economic statistics agencies—BLS, BEA, and the U.S. Census Bureau's Economic Programs Directorate—considered their primary customers to be the macroeconomic policymakers; needs of other data users have been deemed less important. Consequently, agencies have lacked motivation to learn about the needs and priorities of these other data users and how agencies might better serve them. As a result, product development for nonmacroeconomic policy uses has been intermittent and ad hoc, existing data for such uses are the first to be cut in times of budget constraint, and data users are not adequately informed to play an effective advocacy role.

A New Federal Approach

To improve the nation's economic statistics system, the federal government should take the following steps:

—President Barack Obama should direct the National Economic Council (NEC) to develop and oversee implementation of a plan to upgrade the economic statistics system to support more effective national economic policy and intelligent public- and private-sector decisionmaking.

—The president's fiscal year 2010 budget request should include sufficient funding to upgrade outmoded information technology and restore deteriorated data series.

ASA Science Policy Actions

ASA signs letters in support of funding for the Decennial Census, STEM education, and basic research funding in stimulus bill

ASA urges quick appointment of new U.S. Census Bureau director

ASA signs letter to then President-elect Barack Obama about the importance of STEM education

—To inform the fiscal year 2011 budget request, the NEC should commission the National Academy of Sciences to conduct a six-month reconnaissance of the capacity of the economic statistics system to meet public- and private-sector data user needs and make priority recommendations for additional improvements.

—Within its budget review section, OMB should create a working group of budget analysts responsible for the various economic statistics agencies to ensure the president's budget request meets needs as defined by the NEC.

—The capacity of the OMB Office of Statistical and Science Policy should be expanded.

—The White House Office of Legislative Affairs should communicate to the congressional appropriations committees that passage of the president's budget request for statistics agencies is a priority.

—To inform product development efforts and resource allocation decisions, each federal economic statistics agency should take steps to enhance relationships and communication with key data users.

—The Joint Economic Committee should create an economic statistics subcommittee to provide oversight to the economic statistics system.

Throughout his campaign, Obama called for "smarter government," one that allocates trillions of dollars on the basis of good information about need and prospective effects. Quickly restoring the health of the nation's economic statistics system is the necessary first step in fulfilling the president's vision. ■