
THE GEORGE WASHINGTON UNIVERSITY

WASHINGTON, DC

A Foundation to Measure U.S. Economic Competitiveness: Proposals

Andrew Reamer, Research Professor

Presented at “Measuring Competitiveness: In Search of New Metrics” Luncheon, Bernard L. Schwartz Program in Competitiveness and Growth Policies, Carnegie Endowment for International Peace, Washington, DC, June 20, 2013

Assertions:

- Traded industries are the basis of economic well-being.
- The government has a role in promoting the competitiveness of traded industries.
- Intelligent competitiveness policy depends on the availability of economic statistics that
 - accurately describe geospatial economic activity,
 - produce useful competitiveness indicators, and
 - enable assessment of the strengths and weaknesses of traded industries and the systems of human capital, financial capital, and physical infrastructure that support them.
- The data should be useful for the government’s own purposes and for use by businesses and other governments.

History:

- From the early 19th century through Herbert Hoover’s presidency, U.S. economic policy was neo-mercantilist, with the aim of building the strength of the nation’s economic base, particularly manufacturing.
- Congress sought from the Administration the numbers that it needed to set tariffs. To improve the availability and quality of data on manufacturing and trade, Congress passed legislation that planted the seeds that became the Economics Directorate of the Census Bureau (1810), the Bureau of Economic Analysis (1820), and the Bureau of Labor Statistics (1888).
- While Congress intended itself to be the primary user of these data, from the Gilded Age to the Great Depression, the Executive Branch actively used these numbers to

promote competitiveness through policy and to encourage improved business decision-making.

- A sequence of events resulted in the downgrade of U.S. economic competitiveness as a priority, the disintegration of the federal institutional infrastructure to promote competitiveness, and the absence of a mandate for Census, BEA, and BLS to produce numbers for competitiveness analysis.
 - 1930s forward -- Congress got out of the business of setting tariffs, U.S. economic competitiveness became secondary to geopolitical concerns.
 - 1940s forward: Macroeconomics, with a focus on managing the business cycle through fiscal and monetary policy, became the dominant paradigm in economic policy.
 - 1980s forward: The right, with its interest in delegitimizing federal policy roles, has been successful in asserting that industrial analysis, strategy, and policy are bad for the nation, even socialistic.
- Because Congress doesn't understand the what, why, and how of economic numbers, even funding for basic macroeconomic statistical functions has been difficult to come by. Between 1991 and 2008, Congress turned down 13 Administration requests to appropriate \$8 million or less to the Census Bureau to conduct regular surveys across all services sectors, including finance, insurance, and real estate. The request was approved on the 14th try in 2009, too late to help see the full depth of the coming recession.

Attached are 12 low-cost proposals for creating a foundation for measuring U.S. economic competitiveness. Additional proposals are available.

A Foundation to Measure U.S. Economic Competitiveness: Proposals

Jobs and Earnings

1) Data Synchronization

Objective: Create a single reliable picture of U.S. industrial structure in terms of jobs, earnings, and number and size of firms and establishments

Issue: Thirty percent of business establishments are classified by the Census Bureau in one industry and by the Bureau of Labor Statistics (BLS) in another.

Recommended Action: To allow the Census Bureau and BLS to reconcile business registers, Congress should give Census permission to share IRS-derived records with BLS on a confidential basis

Advocate: Regularly proposed by Departments of Treasury, Commerce, and Labor, 2008-present. "Waiting for the proper legislative vehicle."

Annual Cost: \$0

2) Establishment Classification by Business Function

Objective: Identify supply chains and analysis of competitive advantage

Issue: Countries now specialize in functions rather than products. Industry classification is insufficient to let analysts see this

Proposed Action: The DOL Employment and Training Administration (ETA) should consider directing state unemployment insurance (UI) systems to classify each establishment by business function, in addition to industry, using a standard typology.

Advocate: Tim Sturgeon, MIT, and Gary Gereffi, Duke University in 2009 article. They proposed 12 business function categories.

Annual Cost: Minimal

3) Occupational Employment Time Series

Objective: Track changes in local occupational structure and labor market conditions

Issue: The current BLS Occupational Employment Statistics (OES) sample size is too small to allow for time series. Currently, data are provided as a rolling three-year average.

Opportunity: New statewide longitudinal data systems make possible tracking of occupational outcomes of postsecondary degree programs (collegemeasures.org), if each job was classified by occupation.

Proposed Action: ETA should mandate that state UI systems require employers to add occupation to each employee's UI wage record. The availability of this data element would

allow BLS to shift the basis of its OES program from a periodic survey to reliance on a universal set of administrative records, updated quarterly.

Advocate: Proposed by education, workforce development, and economic development advocates.

Net Annual Cost: TBD (Net annual cost = cost to states of administering new requirement minus \$35 million savings from eliminating OES survey)

4) International Labor Comparisons

Objective: Restore the capacity of policymakers to understand U.S. economic positions relative to other nations, including hourly compensation in manufacturing, productivity and unit labor costs in manufacturing, GDP per capita and per hour, consumer prices, and labor force, employment, and unemployment.

Issue: As a result of sequestration, BLS has eliminated its International Labor Comparisons (ILC) program.

Proposed Action: Congress should provide the funds necessary to restore the data series.

Annual Cost: \$2 million

International Trade and Investment

5) Trade in Services

Objective: Obtain as detailed and accurate a picture of U.S. trade in services as is now available for trade in goods.

Issues: Currently, services are categorized by “type of service,” not industry. Further, there is inadequate information on insurance, financial services, computer software, and manufacturing services; insufficient information on firm characteristics, origins of imported services; and an inadequate sample of small firms.

Proposed Action: Congress should appropriate funds to the Bureau of Economic Analysis (BEA) to augment its current efforts to measure trade in services.

Advocate: Proposed by BEA in January 2010 report to House, as required by ARRA.

Annual Cost: “small investment of resources”

6) Input Price Indices

Objective: Ensure the accuracy of measures of U.S. manufacturing productivity and imports.

Issue: BLS overestimates manufacturing productivity growth by 10-20 percent because its method incorrectly attributes to greater productivity the drop in intermediate input prices that occur when a manufacturer shifts from a domestic to a cheaper foreign supply source. (Michael

Mandel and Susan Houseman, “Not all productivity gains are the same. Here's why.”, “What Matters,” McKinsey and Company, June 1, 2011.)

Proposed Action: Congress should appropriate the funds needed to allow BLS to create input price indices.

Advocates: Information Technology and Innovation Foundation, Progressive Policy Institute, the Upjohn Institute, BLS, and other organizations involved in economic analysis. Feasibility study prepared by BLS Office of Prices and Living Conditions. (See William Alterman, “Producing an Input Price Index,” paper prepared for Conference on Measurement Issues Arising from the Growth of Globalization, November 2009.)

Annual Cost: \$1.6 million for a pilot (three years), then \$11 million

7) Traded Services Price Indices

Objective: Enable the construction of “real” trade flows, price comparisons of similar foreign and domestic services, better informed trade negotiations, and improved business decision-making in services.

Issue: In 2012, services accounted for 22 percent of U.S. trade. However, the BLS International Price Program only covers air passenger fares and air freight charges, amounting to ten percent of U.S. services imports and seven percent of U.S. services exports.

Proposed Action: Congress should appropriate funds to BLS to produce import and export price indices for all traded services.

Advocate: Feasibility study prepared by BLS Office of Prices and Living Conditions.

Annual Cost: \$12 million

8) Trade in Value-Added

Objective: Accurately measure the trade in value-added (TiVA) between the U.S. and other nations.

Issue: As complex multinational supply chains develop, traditional trade statistics based on gross flows are unable to provide a true view of the value added provided by each nation. “[T]he U.S.–China deficit is approximately 30–40% smaller when measured on a value added basis, while the U.S.–Japan deficit is approximately 33% larger.” (Robert C. Johnson and Guillermo Noguera, “Accounting for Intermediates: Production Sharing and Trade in Value Added,” *Journal of International Economics*, v. 28, March 2012, pp. 224-236.)

Proposed Action: BEA submits a budget initiative to measure U.S. TiVA. BEA is beginning to explore the topic (<http://www.bea.gov/about/ppt/Trade%20in%20value%20addedrev2.pptx>).

Advocates: American Economic Association Committee on Economic Statistics. Advantages notes in 2013 *Economic Report of the President*. The World Trade Organization, the Organisation for Economic Co-operation and Development, and the European Commission have on-line web tools that measure TiVA among nations.

Annual Cost: TBD

9) Foreign Direct Investment

Objective: More fully measure the nature of foreign direct investment (FDI) in U.S. businesses.

Issue: While foreign firms support more than 5 million jobs in the U.S., the nature of that investment is not fully understood. BEA's current FDI survey does not

- distinguish between acquisitions and new establishments;
- provide adequate state detail on fixed assets, commercial property, and manufacturing employment; and
- capture small to mid-sized investment activity, which accounts for a substantial share of the foreign investment in many states.

Proposed Action: Congress should approve BEA's FY2014 budget initiative to redesign the FDI survey instrument and reduce reporting thresholds.

Advocate: Proposed by BEA in the president's FY2014 budget.

Annual Cost: \$3.8 million

Factors of Production

10) Business R&D

Objective: Have access to detailed data on recent U.S. business R&D and innovation activities.

Issue: The latest available detailed tables on business R&D activity from the National Center for Science and Engineering Statistics (NCSES) are for 2007.

Proposed Action: The National Science Foundation should propose, and Congress should approve, a budget initiative to accelerate the production of detailed tables from the Business R&D and Innovation Survey.

Annual Cost: \$3 million

11) Small Business Finance

Objective: Produce current information about the finances of U.S. small businesses, including sources and ability to access.

Issue: New small businesses are key job generators. However, the current dynamics of small business finance are not well known, impeding the design of private and public efforts to address financing gaps. While the Federal Reserve conducted the Survey of Small Business Finance (SSBF) every five years or so from 1987 to 2003, it terminated the SSBF program because, it said, the survey had been conducted under varying economic conditions and there was no need for additional information. Cost savings: \$5 million every five years.

Proposed Action: The president should issue a memorandum directing the Treasury Department and the Small Business Administration to organize a working group of the appropriate agencies and provide a proposal in nine months for a comprehensive, integrated effort to monitor small business finance conditions.

Advocate: Alicia Robb, E. M. Kauffman Foundation

Annual Cost: \$0 for working group

12) Postsecondary Non-degree Credentials

Objective: Determine the extent to which U.S. adults hold non-degree postsecondary credentials—including industry-recognized certifications, community college certificates, and professional licenses—by industry.

Issue: There is widespread recognition that a postsecondary credential is increasingly essential to obtain a stable, decently-paying job. In a recent National Center for Education Statistics (NCES) study, 38 percent of adults report holding an industry-recognized certification, professional license, or subbaccalaureate educational certificate. However, federal statistical agencies collect information only on degree attainment, not that of non-degree credentials.

Proposed Action: The Census Bureau and the National Center for Education Statistics should collect data on the extent to which the adult population holds non-degree postsecondary credentials, the nature of these credentials, and characteristics of credential holders, including occupation, industry, and wages.

Advocate: The Interagency Working Group on Expanded Measures of Enrollment and Attainment (includes NCES, Census, BLS, NCSES, OMB, CEA).

Annual Cost: TBD

Source: Andrew Reamer, “Improving Federal Statistics for Industry Studies,” presented at the Industry Studies Association Annual Conference, May 29, 2013 (<http://www.industrystudies.pitt.edu/kansascity13/session3.html>)