June 11, 2011

President’s Council on Jobs and Competitiveness
c/o Office of the Under Secretary for Domestic Finance
Department of the Treasury
1500 Pennsylvania Ave., NW
Washington, DC 20220
by email: PCJC@treasury.gov

Dear Members of the President’s Council on Jobs and Competitiveness,

I appreciate the opportunity to submit this statement for consideration during your June 13th discussion of policies and initiatives to strengthen the economy, promote and accelerate job growth, and bolster U.S. competitiveness. My background includes twenty years aiding state and regional economic development organizations in their efforts to be competitive in the global economy; time at the Brookings Institution focusing on the federal statistical system and co-authoring, with now SBA Administrator Karen Mills, the white paper on federal regional clusters policy that provided the foundation for current Obama Administration efforts; and recently joining the George Washington Institute of Public Policy, George Washington University to examine federal policies that support economic competitiveness. I also serve as chair of the Bureau of Labor Statistics Data User Advisory Committee and a member of the Bureau of Economic Analysis Advisory Committee.

I am writing to request that you strongly encourage President Obama to place a very high priority on seeing that federal statistical agencies produce the data needed to craft intelligent, effective federal macroeconomic and competitiveness policies, state and local economic and workforce development efforts, and U.S. business decisions that enhance global competitiveness. Below, I offer the rationale for my request and specific recommendations for near-term action.

Effective public and private sector decisions depend upon good information. At present, however, the nation’s federal statistical system does not adequately produce the current, reliable, relevant data required to produce intelligent decisions. As a consequence, the nation’s capacity to respond to the challenges of the recession and global competitive forces is diminished. In this time of tight budgets, the PCJC should know that annual cost of providing the needed improvements is relatively small, about the cost of fighting our wars for one day, and the returns on that investment can be measured in multiple orders of magnitude—in growth in GDP, jobs, income, and federal tax revenues.

The federal government does not adequately produce the needed data for two reasons. The first is underinvestment. At present, the federal government spends about $1.25 billion annually to track and guide the workings of our $14 trillion economy, an enormous return on a very modest investment. However, senior executive and legislative branch budget decision-makers tend not to accord statistical programs the priority they deserve on the basis of these returns, rather viewing them on par with other forms of federal spending, such as grants. Consequently, and particularly because statistics lack a vocal constituency with the clout, say, of that for highway spending, executive budget decision-makers tend to ask for too little money and congressional appropriators often cut back on the president’s request.
The second reason the federal government does not produce the necessary data is that our statistical system is oriented to serving the needs of federal policymakers who manage fiscal and monetary policy (at Treasury, the Fed, and OMB), but not policymakers directly focused on competitiveness. This orientation has been in place since the 1940s, when Keynesian economics was new, experience of Depression and inflation were recent, and concerns about national competitiveness close to non-existent. At the time of the passage of the Employment Act of 1946, which provided the framework for federal macroeconomic policy, there was no concern that U.S. industrial prowess would be vulnerable to overseas competition. Macroeconomic policy is designed to address cyclical, not structural, economic issues. While cyclical stability is critical to competitiveness, the absence of a coherent structural policy is a major reason why our recovery has been sluggish to date. President Obama’s new high-level focus on U.S. competitiveness has not been seen since the last two years of the Carter Administration; our statistical system reflects that long-standing low level of presidential attention.

Macroeconomic policy, by its very nature, is “top-down,” developed and implemented by the President, a small number of experts in a handful of federal agencies, and Congress. To make an analogy, macroeconomic policy is analogous to Newtonian physics, with the economy seen as a machine and economic wizards working the levers of fiscal and monetary policy to bring about smooth operation.

The nation’s competitiveness, on the other hand, stems from the day-to-day decisions and behaviors of millions of businesses, thousands of education, training, and research institutions, and hundreds of millions of individual workers and students figuring out what occupations to enter and skills to attain. Moreover, competitiveness also depends on the relationships among these various actors within regions, within individual sectors, and particularly within regional industry clusters.

Numerous federal program agencies, such as the International Trade Administration and the National Science Foundation, and state and regional economic and workforce development organizations seek to stimulate and catalyze market actor behaviors that enhance competitiveness, but none have the “top down” power to influence behaviors that the Fed has for monetary policy. In reality, the workings of our economy are more analogous to quantum physics, with billions of seen and unseen variables and substantial uncertainties. To be effective, federal competitiveness policies must seek to increase the probabilities that market actors create productive relationships and make good decisions.¹

Such policies require a different type of statistics that those required by macroeconomists, statistics that focus on regional economies and clusters, industry competitiveness, R&D, technology transfer and innovation, entrepreneurship, education and training, and other dimensions of economic activity outside the usual purview of macroeconomists. That said, the federal tendency to underinvest in statistics has resulted in deficiencies in the macroeconomic realm as well.

The availability of numbers determines the understanding of issues and opportunities that drive policy. Consequently, relatively modest additional investments in federal statistics will yield substantial benefits.

Below, I lay out ten relatively low-cost, high-impact initiatives that can be quickly implemented. These ideas are drawn from a draft policy brief that will discuss these and other recommendations in greater

detail. Some have been proposed by the Administration. Several require very modest Congressional appropriations (I believe that total new costs would be under $50 million).

**Labor Markets.** The federal statistical system can provide the data to help make labor markets work better so that students and workers get training that leads to jobs and employers get workers with skills they need.

1) **Implement the National Employment Statistics System mandated by Congress.** The Workforce Investment Act of 1998 directs the Secretary of Labor to maintain a National Employment Statistics System that meets the decision-making needs of students, workers, educators and trainers, businesses, and economic and workforce developers (29 USC 49I-2, attached). Serious implementation ended with the Clinton Administration. The good news is that, in the meantime, the departments of Labor, Education, and Commerce have invested in a series of prototype IT tools for labor market decision-making that, if brought to scale, could serve as the backbone for the mandated system and significantly improve the workings of U.S. labor markets.\(^2\) I recently laid out an approach to revitalizing the mandated employment data system in a Brookings Institution report, “Putting America to Work: The Essential Role of Federal Labor Market Statistics” (attached). The first, most important step is for the President to direct the Secretary of Labor to make full implementation of the mandate a high priority and to make full use of innovative LMI tools in doing so.

2) **Update and expand O*NET, the Department of Labor’s occupational classification database.** O*NET is the Department of Labor’s highly valued database that classifies and describes occupations in greater detail, including skills and educational requirements. O*NET is a foundational asset for career and training decision-making and occupational projections. See, for instance, [MySkillsMyFuture](http://www.brookings.edu/speeches/2010/0927_labor_statistics_reamer.aspx) and [Skills-based Projections](http://www.brookings.edu/speeches/2010/0927_labor_statistics_reamer.aspx). However, O*NET is underfunded, making it prone to being out-of-date and lacking sufficient detail and so diminishing its value in decision-making. The addition of a few million in funding would address this problem.

3) **Generate state-specific data on job openings and labor turnover by allowing states to “buy” sample from the Bureau of Labor Statistics (BLS).** The BLS [Job Openings and Labor Turnover Survey](http://www.brookings.edu/speeches/2010/0927_labor_statistics_reamer.aspx) (JOLTS) is a powerful tool for understanding current labor market conditions nationally by measuring job openings, job hires, and separations. However, the JOLTS sample is too small to produce estimates for individual states, hobbling the ability of state governors to serve as effective partners with the federal government in the economic recovery process. State-specific data could be produced if individual states were allowed to pay BLS to “oversample” establishments. There is precedent for this approach—state “add-ons” are used in federal survey programs on adult literacy and household travel.

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Competitiveness. With proper guidance and modest investments, the federal statistical system has the capacity to paint a much more complete picture of the current state of national economic competitiveness, one that could serve as the basis for more effective policy.

4) Identify the composition of and trends in the nation’s traded sector, by industry. The nation’s economic wealth is generated by those industries that compete with foreign suppliers of goods and services abroad (through exports) and at home (through import substitution). Unfortunately, the government lacks a full picture of the industry composition of our traded sector, the relative contribution of each industry in terms of jobs and income, global market share, and trends over time. Creating such a picture is essential for effective policy-making and can be done quickly and at very low cost.

5) Produce detailed industrial R&D data beyond 2005. For decades, the National Science Foundation has surveyed U.S. firms regarding their R&D activities—these data are essential for effective federal innovation policies. However, due to lack of funding, NSF has been able to publish only the headline findings, not the detailed data tables, from 2006 forward. Again, correcting this problem would cost a relatively small amount of resources.

6) Restore lost detail regarding foreign direct investment (FDI) by state. Foreign firms employ substantial numbers of U.S. workers. The ability of state governments to recruit these firms was hampered by a budget-driven decision by the Bureau of Economic Analysis to cut back on the detail of FDI data, particularly for manufacturing and commercial property. Data restoration would cost a few million dollars and reap job benefits orders of magnitude greater.

7) Improve productivity measurement by creating an input price index. Accurately measuring industrial productivity is essential for effective macroeconomic and competitiveness policies. However, BLS indicates that it overestimates industrial productivity increases by 10-20% because it treats a shift from a domestic to lower-cost foreign supplier as an increase in productivity rather than a drop in price. BLS says it can correct this problem by creating an input price index, again at relatively low cost.

8) Allow the Census Bureau to share its data with the Bureau of Labor Statistics and the Bureau of Economic Analysis. Current law prevents the Census Bureau from sharing data derived from IRS records with other statistical agencies, despite the fact that these agencies are already bound to protect confidentiality. The consequences of this prohibition are multiple. For instance, about 30 percent of U.S. establishments are classified by the Census Bureau in one industry and by BLS in another, resulting in serious confusion regarding the actual industrial structure of the U.S. economy. The Bush and Obama Administrations have worked with Congress to remove this prohibition to “data synchronization”—good progress has been made and hopefully a law will pass this year.

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4 See [http://www.bea.gov/international/di1fdiop.htm](http://www.bea.gov/international/di1fdiop.htm) and note loss of state detail after 2007.
5 See the work of Susan Houseman at [http://research.upjohn.org/productivity_measurement/](http://research.upjohn.org/productivity_measurement/).
addition to allowing a single picture of U.S. economic structure, the proposed change will allow the Bureau of Economic Analysis (BEA) to produce quarterly GDP by industry (to better see economic turning points) and significantly improve statistics on innovation and self-employment income and BLS to improve its producer price indices.

9) **Expand the BLS International Price Program to better enable competitive analysis.** The International Price Program (IPP) is an important means for the federal government to gain a true picture of the nation’s competitiveness, in general and in specific industries. To serve this role, the IPP needs to fill coverage gaps in the rapidly growing international services sectors, particularly health care and business services. Doing so would allow the construction of “real” trade flows. Further, price indices for imported international services would allow comparisons of price trends between similar imported and domestic U.S. service industries. Price indices for exported U.S. services would allow comparisons with priced trends of similar services in other countries. IPP also needs a foreign currency price index, which would be used to assess price trends in U.S. exports and imports from the perspective of foreign buyers and sellers and so help ascertain shifts in U.S. competitiveness in response to fluctuations in the value of the dollar.

**Macroeconomic stability.** Better federal macroeconomic indicators will aid recovery from this recession and help prevent future ones.

10) **Implement a series of new macroeconomic indicators to more quickly identify concerns and risks.** In President’s FY2012 budget request, BEA proposes to develop new indicators that will facilitate a more effective macroeconomic policy. These include new quarterly measures of net investment and GDP by industry and new risk indicators, particularly regarding excessive financial leveraging through mortgages and overinvestment in housing. The absence of such indicators caused the federal government to not see key danger signals and turning points into the current recession.

I hope you find these ideas of value in the near term and beyond in light of their minimal costs and potentially substantial impact. More generally, I ask that the PCJC strongly encourage President Obama to place a very high priority on ensuring that federal statistical agencies produce the data needed to craft intelligent, effective public and private sector decisions that promote jobs and competitiveness.

Thank you for the opportunity to submit my thoughts. If useful, I am available to discuss them in more detail with you or staff. I wish you all the best in your important work.

Sincerely,

Andrew Reamer
Research Professor

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