

The Economic Impact of Ending or Reducing Funding for the American Community Survey and Other Government Statistics

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June 19, 2012

Congresswoman Maloney, Vice Chairman Brady, and distinguished Members of the Committee: I appreciate the opportunity to speak to you today about the economic impacts of not implementing the American Community Survey and the 2012 Economic Census.

Market Failure, Economic Development, and Job Creation

By way of background, in the first 20 years of my professional career I founded and managed two economic development consulting firms. We worked with public and private sector leaders in cities and states across the U.S. to help them understand their economies' competitiveness strengths and weaknesses and develop collaborative strategies to boost their area's competitive position. I'm pleased to say that the landscape is dotted with the fruits of my firms' efforts, including in nearly every state represented on this committee.

A remarkable aspect of this work was that leadership's attitudes and approaches could not be distinguished by political party. For many decades, the Federal government has let states and regions recover from economic volatility and loss and improve global competitiveness without providing much guidance or assistance. Governors, mayors, and chamber of commerce leaders sought ideas that would work, they didn't really care where they came from.

My firms had the opportunity to help clients because of extensive market failure. Regional economic competitiveness is very much a function of relationships, trust, access to current, comprehensive economic information, and creating a common vision, elements that business markets do not provide on their own. Regional economic clusters, a very old idea made new by Harvard business professor Michael Porter, are key to regional competitiveness and grow on the basis of these characteristics.

The Essential Federal Role in Providing Economic Statistics

Current, accurate statistics are critical to economic development and job creation in each of the states and districts represented on this Committee. As economic development consultants, we relied on public and private datasets to describe regional trends in economic performance, structure, and resources. From 30 years of experience, I know that the Federal government is an essential, irreplaceable provider of such statistics. I'll tell you why.

Last month, I hosted a two-day conference at George Washington University, "Innovative Data Sources for Regional Economic Analysis." The conference took an unusual form, a "data fair" with 50 exhibitors from the Federal, for-profit, non-profit, and academic organizations (including Standard & Poor's, Moody's, Amazon, and Microsoft) and over 200 participants, including Congressional staff. "Innovative" was defined as using advanced information technology or advanced statistical methodology to produce datasets in a manner not possible just a few years

ago. Big Data efforts, the analysis of huge volumes of records, were represented by a number of Federal and for-profit organizations. Feedback from participants, including the exhibitors, indicated that the event enabled people to see a large number of new datasets and make a series of personal connections across sectors and cultures. A number of Federal statistical agencies, including the Census Bureau, the Bureau of Labor Statistics, the Bureau of Economic Analysis, and the National Science Foundation, and a number of private organizations, including S&P, Moody's, Google, and Microsoft, are pursuing collaborative efforts as a result.

In conversations, non-Federal organizations readily admit that they could not, and do not want to, collect the data that the Federal government does. Rather, they see opportunities to add value to Federal data; sell their unique data to the Federal government, which can combine it with other data it has on individual firms, confidentially held; and enhance access to Federal data through web-based data platforms, such as Microsoft's Azure Marketplace.

The Federal government has an essential role to play in the production of statistics that lead to better decisions related to the economy and competitiveness.

- Microeconomic theory says that economic actors' access to complete information is essential to efficient markets.
- However, data are a classic "public good," resulting in substantial underinvestment by the private sector. Consequently, the tendency is for markets to lack access to the information necessary to be efficient.
- Only the Federal government has the fiscal resources, authority, and motivation to produce data that are objective, reliable, and relevant to policy needs, consistent over space and time, and freely accessible to multiple users. Free access provides substantial benefits to society, including improved public and private decision-making and economic outcomes. Better economic outcomes in turn result in increased government tax revenues, paying for the Federal investment many times over.
- Federal data are a highly efficient public good, accessible over and over to an infinite number of users.
- Objective, reliable, current Federal economic data are essential if Congress is to provide proper oversight of Executive Branch policies and programs.
- National, state, and local Federal economic data are essential for the public to hold the President, Senators, and Representatives accountable for their actions.
- Consequently, the nation's economic return on taxpayer investment in Federal statistics is orders of magnitude greater than the cost. The entire annual cost of the economic statistical system to inform and guide the workings of a \$15.5 trillion economy is less than \$2 billion, a figure equal to the cost of four F-22 jet fighters or four days of recent U.S. efforts in Iraq and Afghanistan.

- Only the Federal government has the capacity to guarantee strict confidentiality of sensitive data over the long term.
- Dramatic changes in information technology over the past 15 years allow the Federal government to analyze enormous volumes of data at very low cost and provide millions of users with direct, on-line, customized access to these data in formats that are easily manipulated. In the pre-Internet age, it was difficult to readily provide substantial volumes of data to anyone other than a small number of Federal customers.
- A number of Federal statistical agencies are developing innovative tools that allow analysts to look at the dynamics of the economy (such as the paths people take through the education system and job markets) in ways not before possible. Analysis of the dynamics of education and employment, for instance, will allow education and training institutions to better meet business needs for skilled workers.
- Dramatic, and complex, changes in the nature of interfirm buyer-supplier relations, as described in the well-publicized 2012 New York Times series on the iEconomy of the Apple iPhone, requires new methods of measuring international trade flows that only the Federal government has the capacity to untangle. The Bureau of Labor Statistics is talking with scholars to ascertain how this might be done.
- The government's options for providing researcher access to large databases of individual records, while fully protecting confidentiality, have greatly expanded. Greater researcher access to microdata means that understanding of the factors that lead to economic growth and competitiveness can increase.

The Federal economic statistical system, then, provides an effective, adaptable, mechanism for addressing information market failures, at very low cost and with economic and fiscal returns orders of magnitude greater than taxpayer investment. The private sector does not have the capacity to produce data of similar reliability, usefulness, objectivity, accessibility, and consistency over space and time.

The Impacts of Unreliable Economic Data: Two Stories

Before talking about the economic impacts of losing the American Community Survey and Economic Census, I want to lay the groundwork by telling two current stories about the consequences of unreliable Federal economic data.

Eleven days before President Obama took office, Christina Romer and Jared Bernstein released "The Job Impact of the American Recovery and Reinvestment Plan," with the now famous and incorrect prediction that a \$775+ billion stimulus would result in the unemployment rate peaking at less than 8 percent in 2009.

Less than two weeks before the report's publication, the Bureau of Economic Analysis (BEA) issued its final estimate of change in Gross Domestic Product for the third quarter of 2008, a

decline of 0.5 percent on an annual basis. For the first and second quarters of 2008, BEA's estimate of the annual rate of GDP change was, respectively, up 1.0 percent and up 2.8 percent. This was the state of the U.S. economy as Romer and Bernstein understood it on January 9.

On January 30, BEA gave the advance number for the fourth quarter of 2008, down 3.8 percent, not so good. The final 4Q08 number came out two months later, revised downward significantly, minus 6.3 percent.

Every summer, BEA takes the new and improved data it gets over the year and revises its quarterly GDP estimates going back in time. Revised quarterly estimates came out in the July 2009, 2010, and 2011. Each time revisions were released, the numbers for 1Q08-4Q08 tended to get worse. The July 2011 revision revealed the numbers for the four 2008 quarters, respectively, were -1.8 percent, +1.3 percent, -3.7 percent, and -8.9 percent. The 1Q09 number was only slightly higher than that estimated two years earlier, -6.7 percent.

Conclusion: In the second half of 2008, the economy had fallen off a cliff and Romer and Bernstein, and most economists, did not know it.

So the GDP data were not reliable. To make matters more interesting, in BEA's last three congressional budget justifications, it has made the following statement:

The federal economic statistical system – charged with providing key actionable intelligence on the status, trends, and dynamics of the American economy – fell short in providing the advanced warning signs of a building economic crisis. In no small part, this shortcoming was due to an inability to see, both at the detailed and aggregate levels, warning signs of systematic risk. This was not a result of a lack of attention, competence, or focus, but rather the exceptional tempo of change and evolution occurring in the economy and the existing statistical system's inability to keep pace.

What's been going on? For years, BEA has said that it lacks sufficiently accurate annual and quarterly Census Bureau data on the key components of the services sector, such as finance and insurance. While the Census Bureau for decades had collected a comprehensive set of data of U.S. manufacturing sectors on a regular basis, it required nine requests to Congress between 1992 and 2008 before it received a Congressional appropriation of \$8.1 million to collect annual and quarterly data on the entire services sector. The original request followed recommendations of the commission led by CEA Chair Michael Boskin and chartered by President George H.W. Bush. Presidents Bill Clinton and George W. Bush also tried, to no avail, until the last Bush Administration budget request, for FY 2009, was approved by the 111th Congress. In the meantime, BEA did the best it could, relying in part on private data, but clearly the results at key economic turning points were off the mark.

Once the Census Bureau finally received the \$8.1 million, it quickly put the surveys in the field, all were out by 2010. Though too late for Romer and Bernstein, BEA now had access to frequent, reliable services industry data to improve its overall GDP estimates. However, what it did not have was the funding to use the new data to produce a new set of numbers, quarterly GDP-by-industry, that would provide "advanced warning signs of a building economic crisis" that could have been used by the Bush Administration to forestall the loss of \$13 trillion in

household net worth before it left office. So in fiscal years 2011, 2012, and 2013, BEA asked for funds to produce these numbers--\$500,000 in FY2013. After the agency was turned down the first two years, the House this year again voted to not provide the funds; the Senate Appropriations Committee did approve this initiative. The question now is: Will this Congress agree to provide BEA with the half million dollars it needs to produce quarterly GDP-by-industry so it can help forestall the next economic catastrophe.

Next story. For decades, the Bureau of Labor Statistics (BLS) has managed a series of data programs in collaboration with State Labor Market Information (LMI) agencies. One of these is the Current Employment Statistics (CES) program. Traditionally, the LMI agencies gathered survey data from a sample of in-state businesses and then produced job estimates, by industry. In the latter task, the state agencies had significant latitude to adjust the numbers based on "local knowledge." BLS focused on producing the national numbers released the first Friday of each month.

However, as with BEA, a minority of LMI agencies produced overly optimistic numbers when the recession kicked in—they missed the turning point. Observers believe that the primary reason was inadequate state training of analysts, as state LMI training budgets have been severely cut back as a result of a decade of flat-lining \$80 million in annual grants to LMI agencies from BLS.

In any case, one result, as Members of this Committee know, is that the sum-of-the-states job total did not match the national job totals prepared by BLS at the beginning of the recession. Soon after, and in the face of significant budget constraints, BLS asked for and received permission from Congress to centralize the production of the state CES numbers, removing state discretion, and in the process saving \$5 million annually.

For the past year, unfortunately, this new approach has yielded more volatile, less reliable, job numbers in some states, with significant political implications. A case in point is in Wisconsin—during the recent recall election, the 2011 CES jobs numbers indicated that the state ranked last in job creation nationally. The purpose of the CES program is to quickly produce relatively reliable estimates while waiting for the more accurate numbers coming from state unemployment insurance program records via the Quarterly Census of Employment and Wages (QCEW), another BLS-State cooperative program. Because the state CES number was so dire (jobs down 33,900 in 2011), Wisconsin's state government rushed the release of its QCEW figures ahead of BLS, showing a gain of 23,321 jobs, to prove that the BLS CES estimate was wrong.

BLS admits that the new approach is having growing pains and is striving to do better. In the meantime, however, the CES numbers are causing political problems and frozen public and private decision-making in a number of states, including Wisconsin, Maine, and Massachusetts. Government and media quotes appended to this testimony demonstrate the issue.

The upshot of these two stories: There are substantial, real-world consequences to inadequate financial support to Federal statistical agencies and their state partners.

The American Community Survey

The American Community Survey (ACS) is the fifth iteration of a series of questions that every household in the U.S. has been required to answer, under penalty of law, since the First Census in 1790. From the Nation's beginnings, Congress, for the purposes of public policy, has consistently used the decennial census framework to collect information beyond that needed for "bare enumeration."

Article 1, Section 2, Clause 3 of the Constitution requires the decennial enumeration of the population by state for the purposes of apportioning seats in the House of Representatives and for the collection of direct taxes from the states. This section was the outcome of long discussions and intricate compromise among numerous participants in the Constitutional Convention, as was most of the other content of the Nation's founding document.

Representatives and direct Taxes shall be apportioned among the several States which may be included within this Union, according to their respective Numbers, which shall be determined by adding to the whole Number of free Persons, including those bound to Service for a Term of Years, and excluding Indians not taxed, three fifths of all other Persons. The actual Enumeration shall be made within three Years after the first Meeting of the Congress of the United States, and within every subsequent Term of ten Years, in such Manner as they shall by Law direct. The Number of Representatives shall not exceed one for every thirty Thousand, but each State shall have at Least one Representative

The foundation for employing the decennial census to gather socioeconomic data was provided by James Madison, called the "Father of the Constitution" by his Constitutional Convention colleagues. As the House of Representatives considered the Census Act of 1790, Representative Madison said to Members of the House that

they had now an opportunity of obtaining the most useful information for those who should hereafter be called upon to legislate for their country if this bill was extended so as to embrace some other objects besides the bare enumeration of the inhabitants; it would enable them to adapt the public measures to the particular circumstances of the community. In order to know the various interests of the United States, it was necessary that the description of the several classes into which the community was divided, should be accurately known; on this knowledge the legislature might proceed to make a proper provision for the agricultural, commercial and manufacturing interests, but without it they could never make their provisions in due proportion.

This kind of information, he observed, all legislatures had wished for; but this kind of information had never been obtained in any country. He wished, therefore, to avail himself of the present opportunity of accomplishing so valuable a purpose. If the plan was pursued in taking every future census, it would give them an opportunity of marking the progress of the society, and distinguishing the growth of every interest.

Congress approved all but one of Madison's recommendations for additional questions.

In 1800, Vice President Thomas Jefferson, "Father of the Declaration of Independence," continued this tradition by asking Congress to further enlarge the census questions to include

citizenship and immigration status, occupation, and greater detail on age. Congress complied with the latter request.

Over succeeding censuses, Congress has consistently mandated the collecting census data for the purposes of public policy. At times Congress acted on requests of presidents, from John Quincy Adams to Franklin Roosevelt and George W. Bush. More often, particularly in the early part of the Nation's history, data collection initiatives came from Members of Congress themselves. For many decades, Congress wrote the census questions. And for a number of decades now, Congress by law gets to review every census question two years before the conduct of the decennial effort. Every question must have a Federal purpose.

The census process first developed a sound statistical basis in 1850. From that year through 1930, the census asked every household a large number of socioeconomic questions. In the 1940 and 1950 censuses, a subset of the population was asked a supplementary set of questions. Respondent burden was further reduced by the development of the "long form" in 1960 (received one-quarter of households) and its use through 2000 (received by one-sixth of households).

For decades, the use of "long form" data—on the Nation as a whole down to neighborhoods—was embedded in the functioning of the public and private sectors throughout the U.S. The problem was that the data were out of date by the middle of the decade. This issue was first discussed by President U.S. Grant in 1872, who called for a mid-decade census because "The interval at present established between the Federal census is so long that the information obtained at the decennial period as to the material condition, wants, and resources of the nation is of little practical value after the expiration of the first half of that period." However, more frequent data was not collected until the advent of the American Community Survey, fully implemented at the request of President Bush and the direction of Congress in 2005. Six times between 2001 and 2007, the report of the House Appropriations Committee indicated "steadfast" support for the ACS as a replacement for the decennial "long form."

Rather than gather data twice a decade, as desired by President Grant, the ACS produces statistics every year. Data are current, annually released less than a year after being collected. In 2010, for the first time, the ACS was able to produce data down to the neighborhood level. Seven questions on the current ACS can be traced back to the first statistically scientific census in 1850. The ACS has continued a Census Bureau tradition of innovation that has made that agency first among nations from the 18th through the 21st centuries.

In addition to being current, objective, reliable, and consistent over space and time, the ACS, and the "long form" before it, have an important asset that cannot be replicated by private sector data collections. The breadth of ACS data, in terms of topic and geographic level, and the flexibility of the dataset to produce nearly unlimited cross tabulations (such as male Hispanic military veterans over 35 with advanced degrees) allow the public, decision-makers, and researchers to use the data for a multitude of purposes.

- Building blocks for important Federal data. A number of Federal statistics and classifications widely used by public and private sectors at all geographic levels are constructed on the basis of ACS data. Examples include
 - intercensal population estimates for the Nation, states, and areas
 - state and local total and per capita personal income

- metropolitan statistical area boundaries
 - occupational employment projections
- State budgets. In 23 states, constitutional or statutory limits on state government revenue and spending are determined on the basis of one or two ACS-reliant measures: state personal income and annual state population growth. Also, a majority of the states use BEA's quarterly estimates of state personal income to project tax collections.
- Legislative redistricting. ACS data are used in the drawing of all new legislative districts based on the 2010 Census.
- Regional economic development. State and local economic development organizations rely heavily on ACS data for assessing economic strengths and weaknesses (such as educational attainment) and for business attraction, including foreign direct investment.
- Criminal justice. State and local police departments use ACS data for crime mapping and forecasting, to determine the effective allocation of a fixed number of personnel.
- Disaster planning and recovery. Many ACS data elements are used to shape disaster plan details, assess impacts (including outmigration), and guide recovery operations.
- Transportation planning. State and local transportation planners use ACS data to guide investments in transportation infrastructure.
- Education planning. Local school officials use the ACS to determine investment in buildings and allocation of children by neighborhood among schools.
- Business decision-making. The ACS is critical to job creation. Businesses use ACS household and individual data to determine whether and where to open establishments and how to best meet customer needs. For site location, for instance comparing potential U.S. sites to ones overseas, businesses rely on ACS workforce, transportation, and demographic data.
- Research. Academic and think tank researchers use the ACS to identify social and economic dynamics that can guide public policy.
- Federal policy. Congress and Executive Branch officials use ACS data to assess conditions in realms including housing, education, employment and workforce, transportation, poverty, insurance coverage, and life after military discharge.
- Political accountability. In providing data on socioeconomic conditions by state and Congressional District, the ACS enables voters to hold their elected politicians accountable.
- Geographic distribution of Federal domestic assistance. ACS data are used, directly or indirectly, by 184 Federal programs to distribute over \$450 billion annually to states and areas.
 - The Medicaid reimbursement formula by state depends on the ACS. The formula is a function of state per capita income, which is state personal income divided by population, both ACS-dependent measures. Federal Medicaid expenditures in FY2010 were \$285.6 billion.
 - The second largest use of the ACS is in the distribution of Federal funds is for the allocation of highway construction assistance to States.

Since the Nation's founding, Congress has regularly discussed the appropriateness of asking questions beyond "bare enumeration" and requiring answers to those questions. Together,

Congress and the courts have made clear that a mandatory ACS is both constitutional and legal, (per “Legal Authority for American Community Survey,” U.S. General Accounting Office, April 2002).

The above list of uses makes clear that the termination of the ACS would cause severe economic disruption and job loss, misapplication of scarce community assets and services, and significantly increased waste, fraud, and abuse of government funds. Put another way, the end of the ACS would cause chaos throughout the public and private sectors. As recent issues with BEA and BLS statistics demonstrate, unreliable or unavailable numbers result in bad or frozen decision-making, with costs that greatly exceed the small amounts of monies saved.

Further, and quite importantly, the termination of the ACS would cheer our Nation’s economic competitors, including China and India, who know full well that without the ACS, U.S.-based businesses would fly blind.

Moreover, termination of the ACS would dislodge over two centuries of a tradition of civic duty and nationwide collaboration in providing information to collectively understand ourselves and our Nation. As columnist E.J. Dionne notes, successful nationhood requires a creative balance between responsibilities to community and self. This Nation has succeeded in no small part because of the willingness nearly every household, over 222 years, to carry out its civic duty, follow the law, and provide information that, bit by bit, is aggregated and then disaggregated to provide ourselves with a picture of ourselves, up close and from sea to shining sea.

Finally, termination of the ACS would result in the wasting of billions of dollars of prior taxpayer investments in census data.

Changing the ACS to a voluntary survey is not a viable alternative. Census Bureau research carried in 2003 at the direction of Congress on the impacts of a voluntary ACS to data cost and reliability, and updated last year, make clear that a voluntary ACS will substantially raise costs by requiring a larger sample size or greater household follow-up and significantly reduce data reliability and so make effective public and private decision-making more difficult. If Congress chooses to make the ACS voluntary and does not provide additional millions to address the impacts, the ACS would not be worth carrying out.

The House, I believe, is confusing the baby with the bathwater and so is poised to plunge the Nation into statistical darkness, a profoundly un-American act. Rather, it and the Nation would be better served by providing significantly greater oversight of and direction to the Census Bureau’s management of the ACS in three realms. First, the Census Bureau needs to provide a much fuller explanation to each ACS recipient about the benefits a reliable ACS has for their community. Modern IT allows customization of this message by city and county. If the Census Bureau will clearly describe the benefits, ACS response should improve and complaints to Congress and program costs decline.

Second, the Census Bureau needs to seriously examine the practices of its field staff in nonresponse follow-up to ensure that nonrespondents are not mistreated. If nonrespondents are well treated, again participation should increase.

Finally, the Census Bureau should regularly educate Members of Congress about the uses and benefits of the ACS. It does far too little of that at present.

I would like to believe that House Members voted to prohibit spending on the ACS out of a lack of information about the Nation's reliance, historical antecedents, and constitutional and legal authority. If so, improved communications between the Census Bureau and Congress would go a long way to prevent this degree of animus towards to the ACS from recurring.

Economic Census

The Economic Census is the business equivalent of the decennial census. The Census Bureau conducts the Economic Census once every five years, for years ending in "2" and "7." For some time, the Census Bureau has been in the process of readying the 2012 Economic Census for implementation—surveys are to go to businesses in nearly every sector of the U.S. economy in early 2013.

The roots of the Economic Census are almost as old as census questions beyond "bare enumeration." In 1810, President Madison signed into law an amendment to the Census Act of 1810 requiring census takers also to "take, under the direction of the Secretary of the Treasury, and according to such instructions as he shall give, an account of the several manufacturing establishments and manufactures within their several districts, territories and divisions."

From that time through the early 20th century, with one exception in 1830, the decennial census process was used to collect comprehensive data on various sectors of the burgeoning U.S. economy. In 1850, for instance, Congress required the collection of "such information as to mines, agriculture, commerce, manufactures, education, and other topics as would exhibit a full view of the pursuits, industry, education, and resources of the country." In 1900, President McKinley said to Congress that "the Twelfth Census is progressing favorably. This national undertaking, ordered by the Congress each decade, has finally resulted in the collection of an aggregation of statistical facts to determine the industrial growth of the country, its manufacturing and mechanical resources, its richness in mines and forests, the number of its agriculturists, their farms and products"

In the early 20th century, Congress mandated taking a census of manufactures every two years and other business censuses with the decennial. Then in 1948, Congress directed that a census of manufactures and other key sectors be carried out every five years. In 1953, Congress failed to provide funding for the Economic Census. The resulting outcry, and the work of the Watkins Commission, led Congress to provide funding for a 1954 Economic Census. This effort has been conducted on a regular basis ever since. In the 1960s and 70s, surveys of minority- and women-owned businesses were added. In the early 1990s, at the prodding of the Boskin Commission, Congress approved funding for the 1992 Economic Census to include over 95 new industries and a new survey of business owners, increasing coverage to about 98% of economic activity from 75% for 1987.

For 200 years, in order to ensure an accurate economic accounting, Congress has required that businesses respond to the Economic Census or face a penalty.

Through indirect and direct uses, the Economic Census is highly critical to informed public and private decision-making, as with the ACS.

The Economic Census has two types of indirect, or foundational, uses. The first is through BEA's creation of an input/output model of the economy. The agency uses this model to benchmark GDP estimates in the census year. Public and private organizations rely on the I/O model to forecast national and state economic activity and federal and state fiscal inflows and outflows. States, local governments, and regional economic developers use state and regional I/O models (based on the national) to estimate the impacts of proposed efforts on jobs, wages, the demand for public services, and tax revenues.

The second foundational use of the Economic Census is increasing the reliability of Federal sample surveys.

- The Economic Census is used to update the Census Bureau's Business Register, a comprehensive listing of nearly every business in the nation. The Business Register allows the Census Bureau to build samples that is truly representative of businesses targeted by particular surveys. A representative survey means more accurate economic estimates.
- Federal data agencies and industry associations adjust their survey estimates to align with numbers generated by the Economic Census, which are much more accurate.
- Federal data agencies adjust their indices of industrial production, productivity, and prices to the industry and product mix (weights) identified by the Economic Census.

Survey-based Federal economic estimates that use the Economic Census in one or more of these ways include 12 monthly and quarterly Principal Federal Economic Indicators (such as GDP and industrial production) and important annual datasets (including GDP, surveys of manufactures and services, R&D expenditures, and commodity flows (transportation)).

Regarding direct uses, a multitude of private and public users look up and analyze Economic Census data to inform their decision-making.

- Individual businesses use the Economic Census to compare their operations to industry norms, find markets, and make decisions about operating sites, capital investment, marketing, and product development.
- Industry associations rely on data from the Economic Census to gauge sector organizational structure and product trends and guide their government relations strategy.
- Women- and minority-owned business associations use the Economic Census to assess and educate others about ownership patterns and how they change over time.
- State and local analysts use Economic Census data to conduct analyses of industry structure, competitiveness, demand for skilled labor, and entrepreneurship.
- State and local governments set small business procurement guidelines on the basis of the Economic Census.
- Federal program agencies utilize the Economic Census to assess industry trends and generate policy recommendations. For example, the Small Business Administration and the Minority Business Development Administration analyze the results of the Survey of Business Owners to track trends in entrepreneurship development.

Finally, through the Census Bureau's Center for Economic Studies (under strict confidentiality protections), research economists analyze Economic Census records to understand trends in industry and business development and the implications for public policy. A recent key finding is that new businesses are the primary job creators in the U.S. economy.

The above uses make clear that the elimination of the 2012 Economic Census would have profound negative impacts on the capacity of the U.S. economy to create and sustain jobs, fully recover from the Great Recession, and be competitive internationally. A new Economic Census could not be conducted until 2017. The Nation would have to rely on a 2007 model of the economy until at least 2022, which would throw off GDP estimates; national and state tax and spending projections; production, productivity, and price indices; and economic impact assessments. Monthly, quarterly and annual Federal economic surveys would be less reliable as they would be far less likely to include new firms.

Businesses and business associations would be unable to adequately gauge industry norms, structure, and trends. Government policymakers and program managers would make decisions in the dark. Economic research seeking to understand the dynamics of economic activity, innovation, and entrepreneurship, and the implications for economic and competitiveness policy, would grind to a halt.

And very importantly, the ability of firms to raise funds in financial markets would be greatly damaged as investors could not assess economic conditions.

In summary, Congressional failure to provide sufficient funding to implement the 2012 Economic Census will result in great, and unnecessary, economic difficulties. Moreover, this action would create a break in a two hundred year-old American tradition that has enabled the growth of our economic might and would provide succor to U.S. competitors in China and other developed and developing nations.

Conclusion

Large-scale information market failure cannot be adequately addressed by the private sector. Only the Federal government has the capacity to produce the objective, current, reliable data needed for efficient markets. Over more than two centuries, the census effort has led the way, and the world, in inventing and constructing better and better ways to understand the state of the U.S.A. In recent decades, the Federal economic statistical system has been robbed of critical financial resources, to the great detriment of sound economic policy and household employment, income, and wealth.

Unfortunately, the House action, I believe unwittingly, continues this self-destructive spiral. I hope this testimony has raised understanding of the value of the ACS and Economic Census and the consequences of their termination.

I very much appreciate the opportunity to present my views before the Joint Economic Committee and would be pleased to answer any questions you might have.

Appendix: Select Quotes Regarding BLS Current Employment Statistics Estimates by State

“Report shows Maine job losses worst in nation per capita,” Bangor Daily News, February 8, 2012

- “A new analysis by the Maine Center for Economic Policy suggests the state lost more jobs per capita in 2011 than every other state in the nation, shedding 7,200 jobs, but the Maine Department of Labor refuted those numbers, saying they’re based on faulty federal data.”
- “[Maine Labor Department spokesman] Fisher said the state department brought the issue up with federal labor officials, suggesting that the numbers weren’t accurately reflecting the reality in Maine. He provided an email that Glenn Mills, director of economic research at the Department of Labor’s Center for Workforce Research & Information, sent to the federal Bureau of Labor Statistics. In it, Mills charges that the federal program that relies on the survey of businesses wasn’t producing good data for Maine.
- ‘Presenting to users a trend we know to be outside the bounds of reality does a disservice to them as they draw incorrect conclusions, not realizing the data government agencies are providing is of such poor quality,’ Mills wrote. ‘The volatility and false signals coming from the program are at odds with the very purpose of the Current Employment Statistics program, which was designed to provide the closest to real-time indication of the employment situation. Monthly surges up and down confuse the very people who the program is designed to provide a valuable service for.’”

“DWD Secretary Newson: Actual Jobs Data Reported by Wisconsin Employers Show State Added Over 23,300 Jobs in 2011,” Wisconsin Department of Workforce Development, May 16, 2016

- “Wisconsin Department of Workforce Development (DWD) Secretary Reggie Newson today released 2011 Wisconsin actual jobs data based on reports from nearly 160,000 employers, which shows the state added over 23,300 jobs between December 2010 and December 2011.”
- “‘For the first time, we see Wisconsin’s 2011 jobs picture based on what 96 percent of Wisconsin employers reported, not what statistics out of Washington, D.C. estimated based on a survey of 3.5 percent of Wisconsin businesses,’ Secretary Newson said. ‘Wisconsin added jobs last year, which not only contradicts the loss in jobs that the federal government estimated for our state, but also lines up with other indicators that show Wisconsin’s economy is headed in the right direction.’”
- “‘The BLS’ monthly job estimates are volatile and not in line with the economic growth we see throughout the state,’ Secretary Newson said. ‘And, because workforce data is important to job creators as they contemplate key decisions for their businesses, Wisconsin employers – and job seekers – have the most to lose when volatile data is represented as a reliable indicator.’”
- “Secretary Newson urged the BLS to reexamine the process it uses to develop the CES monthly data, given the increased volatility and decrease in reliability of the data

series since the program was gradually centralized by BLS. He cited concerns that the National Association of State Workforce Agencies indicated in writing in 2010 over the trend to centralize the estimation process for CES at the federal government from the states, specifically that ‘data quality will continue to degrade and user confidence will be undermined.’”

“Employment debate requires closer look,” Milwaukee Journal Sentinel, May 26, 2012

- “Scott Walker has it all figured out. Tom Barrett does too. The rest of us can only duck and cover as the gubernatorial candidates lay down a cross-fire of conflicting economic data and carpet bomb the state with political rhetoric. But at its heart, the Great War of the Jobs Numbers is essentially about this: Has Wisconsin's recent employment performance been abysmal, or merely mediocre?”
- “Since at least 2008, the year-over-year changes in the monthly survey typically have moved in sync with the year-over-year changes in the quarterly census. The average monthly difference has been about 10,000 jobs. But the census and survey drifted apart in the last half of 2011 - by 57,000 jobs as of December - even though the survey numbers had gone through an annual revision using the census numbers in a process the Bureau of Labor Statistics calls benchmarking.
- One possible factor in the recent dramatic deviation of the monthly jobs survey from the quarterly census: The federal bureau took over the responsibility from the states of putting out the monthly numbers, beginning with the March 2011 figures. "That was the last of our opportunity to have any real say in these estimates," said Steve Hine, Minnesota's director of the Labor Market Information.
- “Like officials in Wisconsin and some other states, Hine questions whether the loss of local responsibility for the jobs figures has harmed their accuracy. The monthly employment numbers, he said, show Minnesota roughly 40,000 jobs behind where he knows the state actually is because of the more accurate unemployment-insurance counts. In a statement, federal officials have said that the consolidation of the data collection has saved money and that it should improve accuracy. They said that state agencies can still provide federal officials with information about local events such as plant closings, but also acknowledged that part of reason for the change was to rely "less on individual analyst judgment and more on the use of standard statistical" models.”