September 8, 2002

Dr. Catherine Ball, Office of the Inspector General
National Science Foundation
4201 Wilson Blvd.
Arlington, VA 22230

Dear Dr. Ball:

As background to our meeting on September 10, I am forwarding a copy of public testimony in April 2001 by Mr. Richard Berner, President of the National Association of Business Economists. The members of their Association are among the users of government economic datasets; they have created a professional Committee (now, a Business Statistics Council) that now provides an independent source of criticism and evaluation of the issues unraised by CNSTAT.

Newspaper accounts imply that, at least at the end of a 3-year revision cycle, the government's economic data systems finally have all of the paperwork they need, and time for cross-checking, to make the data reliable. However, NABE's criticism, presented diplomatically, is that a component of about 20% of GDP is not reported/measured directly, but is estimated in various ways from "a patchwork quilt of source data." The early and final estimates also contain a double source of confounding and potential unreliability as "data on prices that enable us to separate inflation from real growth are often lacking," which is egregious if we are concerned with a $2 trillion component. And NSF-supported scientific research, policy makers, and our public debates and political process are relying upon the numbers.

I have not evaluated NABE's criticisms. However, they appear to have been unchallenged by the Bureau of Economic Analysis and I think they should be brought to your attention as part of your current investigation. In most scientific fields, the National Science Board might assume that our most honored scientists, who are members of the National Academy of Sciences, would care about fundamental issues of data reliability and would have raised such criticisms themselves, across the past three decades when the NAS/NRC system has held the position of public trust to operate CNSTAT.

Sincerely,

(Dr.) Lloyd S. Etheredge

cc: Mr. Lawrence Lindsey, NEC
Hon. Paul O'Neill, Treasury
Hon. Jim Saxton, Chair - Joint Economic Committee

Testimony of

Richard B. Berner
President, National Association for Business Economics
and
Managing Director and Chief U.S. Economist, Morgan Stanley Inc.

to the

107th Congress
United States House of Representatives
Subcommittee on the Census
Committee on Government Reform
April 5, 2001

Mr. Chairman and Members of the Committee

Thank you for this opportunity to appear before you. You have asked me to discuss the Bureau of Economic Analysis (BEA) in general, and the importance and accuracy of the Gross Domestic Product (GDP) and related accounts in measuring the U.S. economy. I am here today in my role as President of the National Association for Business Economics (NABE). We are a professional association for people who use economics in their work. Our mission is to provide leadership in the use and understanding of economics.

The National Income and Product or GDP accounts form the key conceptual and empirical framework for understanding, analyzing and forecasting the U.S. economy. As such, these data are critical for making informed decisions, both for people in business and for you who make public policy. It is essential that these data faithfully portray the rhythm of overall economic activity as well as that of the separate parts of a complex, $10 trillion economy.

Your current deliberations on tax and fiscal policy illustrate the importance of accurate and timely statistics on GDP and personal and corporate income. Courtesy of pleasant surprises on economic growth and of fiscal restraint on your part over the past six years, we now enjoy significant and likely persistent budget surpluses. Yet we do not completely understand the sources of those unexpected dividends, in part because data profiling the sources of the recent surge in income is not yet available. And the economic outlook -- both near-term and longer-term -- is uncertain. As you know, the long-term matters a lot. CBO estimates that a mere 0.1 percentage point difference in real growth over ten years would add or take away $244 billion from cumulative projected surpluses. Sensible policy decisions require a range of forecasts or scenarios. Sensible policy decisions also must start from knowledge of the facts, and if the data on which we base those forecasts are faulty, so too will be the forecasts. And that could have grave consequences for our future prosperity.

Since their inception, statisticians have endeavored to improve the quality and accuracy of these statistics. Yet our economy is constantly changing: The industrial economy of the past has given way to a very different, knowledge-based information economy. That constant evolution -- some would say revolution -- requires both new sources of data and the resources for our statistical agencies to collect and analyze them. While U.S. economic statistics remain among the best in the world, lack of investment in our statistical infrastructure has left us with a system that still does a better job of measuring industrial activity than information-based output.

New data initiatives cover services and high-tech industries more comprehensively and more accurately than only four years ago. Yet major gaps remain. The most important industry in some statistical tables is still the one labeled "all other". While BEA makes every effort to ensure that its four major sets of accounts -- national, industry, regional and international -- tell consistent stories, holes in the data often make that impossible. Statisticians must estimate from a patchwork quilt of source data roughly 20% of GDP. Moreover, data on prices that enable us to separate inflation from real growth are often lacking.

More and better data will require funding. Budgets for statistical agencies, especially BEA, barely cover mandated wage escalations. Funds for research and development are sorely needed to expand the scope and improve the quality of our statistics so they remain relevant in a rapidly changing economy.

Businesspeople and policymakers increasingly recognize that funding improved statistics in general and the GDP accounts in particular will pay huge dividends. My friend and predecessor as NABE president Diane Swonk will recount for you in a moment the broad support that these efforts have in the business community. For his part, Fed Chairman Greenspan -- himself another past president of our association -- last week spoke at our Washington Policy Conference on this very subject. He asked:

"Should we endeavor to continue to refine our techniques of deriving maximum information from an existing body of data? Or should we find ways to augment our data library to gain better insight into how our economy is functioning? Obviously, we should do both, but I suspect greater payoffs will come from more data than from more technique."

Personally, Mr. Chairman, I agree with Alan Greenspan. And so does our membership.

NABE members recognize the importance of funding constraints on enhanced data gathering. It fits our long-standing support for maintaining fiscal discipline. Our members consistently supported moving to a balanced budget since we began polling them on policy issues twenty five years ago. However, we also recognize that the costs of incomplete and inaccurate information far exceed the combined budgets of our major statistical agencies. In a survey published just last week, 70% of NABE respondents favored increasing spending on economic statistics. They ranked such increases first among seven alternatives including education and infrastructure.

That's not surprising. We have long been concerned about improving the quality and timeliness of these data. In 1985 NABE created a Statistics Committee with the charter to work for the improvement of our national statistical system. Along with Chairman Greenspan, we supported efforts to reduce the bias in the Consumer Price Index. And, working closely with the Council of Economic Advisers, the Committee developed recommendations for data improvement.

NABE believes that our national data collection efforts should be as efficient as possible. To that end, we believe that Congress should mandate "data sharing" among the agencies, solely for statistical purposes. Confidentiality statutes that permit data to be seen only by the employees of a single agency (e.g., Title 13 -- Census Bureau and Title 15 -- Bureau of Economic Analysis) present a formidable barrier to effective working relationships among statistical agencies. They virtually guarantee duplication of effort and inconsistencies among related data sets collected by the affected agencies. Moreover, they prevent agencies from undertaking new analyses that could improve the information available to policy makers. This is not a cost-effective way to run any business -- either public or private.

Federal statistical agencies and others such as the Federal Reserve are cooperating in several ways to improve our statistical infrastructure. But permitting data sharing would take that cooperation to a new level. Consequently, NABE supports reintroduction of the Statistical Efficiency Act of 1999 that was passed unanimously by the House. This legislation would permit exchange of statistical information under specific statutory controls.

In summary, Mr. Chairman, NABE supports enhanced funding for improved economic statistics. We also support the efficient use of those funds through "data sharing" among Federal agencies.

I will be happy to answer any questions you may have. Thank you.