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COMMITTEE ON GOVERNMENT REFORM**

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**WRITTEN TESTIMONY FOR THE RECORD BY
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I thank the Committee for inviting me to appear today. Although currently I serve as Chair of the Federal Economic Statistics Advisory Committee ("FESAC"), I have not had the opportunity to share these remarks with other FESAC members, and thus my comments today should be interpreted as reflecting my own views, and not necessarily those of FESAC members.

As we all know, the last few decades have been marked by dramatic technological and economic changes. To make important decisions wisely within such a speedily changing economic environment, businesses, government policy makers, employees, retirees, students, homemakers and even academic researchers all rely critically on data and information provided by our federal statistical agencies. A major challenge facing those agencies is to track the moving target of current economic activity reliably, efficiently and promptly.

FESAC is an interagency advisory committee to three economic statistics agencies -- the Bureau of Labor Statistics ("BLS"), the Census Bureau ("Census"), and the Bureau of Economic Analysis ("BEA"). FESAC's mandate is to analyze issues involved in collecting, tabulating and publishing federal economic statistics, particularly those issues that cut across these three statistical agencies and that could benefit from enhanced interagency coordination. A goal of FESAC is to foster greater efficiency within the Federal statistical system, and thereby enable it to provide higher quality statistics in support of more informed economic and social policy decision-making. FESAC serves as a sounding board for alternative approaches for data collection and reporting. It offers

technical input drawing on the multi-disciplinary expertise of its members, as well as that of other outside experts in academia and in the private and public sectors.

Let me now turn to the BEA. Although probably best known for publishing our nation's Gross Domestic Product (“GDP”) data, the BEA is a key provider of a wide variety of national, industry, regional and international economic data on income, production, prices and balance of payments. In carrying out its mission, the BEA relies on data from both Census and BLS, and in turn provides BLS with data it needs in fulfilling its own responsibilities.

In my brief remarks today, I would like to discuss with you several important issues and opportunities facing the BEA, but issues that also involve Census and the BLS. Since my time is short, to illustrate the points I want to make I will focus on the measurement of but one important and widely observed economic indicator -- labor productivity, also called output per hour. Let's look at Exhibit 1.

As can be seen in this Exhibit, labor productivity is a simple ratio – a measure of inflation-adjusted or real output appears in the numerator, while a measure of hours worked appears in the denominator. BEA publishes the numerator, BLS the denominator; BLS also publishes the ratio. One might think of labor productivity as BEA over BLS.

But let's look at the numerator and denominator separately, and a bit more closely. Focusing first on the numerator, in producing its measure of real output, the BEA relies on Census to provide output figures in current dollars. Census collects sales data from a representative set of establishments, which it identifies utilizing a comprehensive listing of establishments that serves as the sampling frame for all of the Census Bureau's business surveys. (As an aside, what an establishment is in a digital economy with increasing e-commerce presents ever more complex issues, but that is a subject for another day.) To convert the Census sales figures into real, inflation-adjusted output data, the BEA deflates them, using a combination of price indexes provided by the BLS and those that it has constructed on its own. (BEA was a pioneer in developing deflators for computers, in collaboration with private sector firms such as IBM, and for software, in collaboration

with a variety of academics and private sector vendors.) How one constructs reliable deflators for diverse service industries such as banking, consulting, tax preparation, investment advice, and health care raises very challenging issues for all three agencies. FESAC is focusing considerable attention on such output measurement challenges.

Let's briefly turn to the denominator of labor productivity -- the measure of hours worked by employees and the self-employed. Like Census, BLS has a list of establishments from which it selects those asked to provide essential economic data. (Unfortunately, the universe lists of establishments at the BLS and Census do not match precisely, and currently data sharing is not permitted -- more on this shortly.) Although BLS measures of hours worked by production workers in various manufacturing industries are likely to be very reliable, those types of workers are now a distinct minority in our changing economy. Hours worked by entrepreneurs in internet startups, by telecommuting consultants, by sales representatives and office workers using cell phones while driving to and from work and fax machines at home, are very difficult to measure reliably. Currently the BEA and BLS are both expending considerable efforts on creating better measures of hours worked and of how individuals allocate their ~~of~~ time -- topics that will be discussed in detail at our next FESAC meeting in June. A related set of issues, how one measures labor compensation incorporating stock options and non-wage benefits such as health insurance, is also of great concern to FESAC.

This simple example illustrates some of the complexity involved in putting together the nation's economic statistics. Clearly, constructing and publishing a measure such as labor productivity involves a great deal of coordination across our federal economic statistical agencies. By and large, this coordination works well: each of the three principal economic statistics agencies has a reasonably well-defined set of responsibilities and each is committed to working collaboratively with the others to address issues of mutual interest, such as those I have identified above. At the same time, current arrangements do seem to involve some needless duplication and burden on the public.

Let me conclude, then, with an unabashed plea to this sub-committee. Current US laws restrict agencies' ability to share information with one another, even for statistical purposes. These data sharing restrictions, and especially the inability of the agencies to share business list information, are very costly. Both Census and the BLS have universe lists of establishments, but these do not always agree, particularly in the context of a rapidly changing economic environment. BEA relies on both Census and BLS establishment data, and must make adjustments when these data do not appear to emerge from a consistent establishment basis. I believe the sharing of universe lists and other data among appropriate Federal statistical agencies would not only achieve budget savings, greater efficiency and increased accuracy, but that it would also reduce the reporting burden on the public. Moreover, this data sharing could be carried out in ways that protected the important confidentiality interests of those providing information.

I strongly urge this sub-committee to support passage of legislation enabling the appropriate sharing of information among statistical agencies for statistical purposes. A good basis for such legislation would be The Statistical Efficiency Act of 1999, which was passed by the House in the last Congress as H.R. 2885, but was not considered by the Senate. Passage of such legislation would be an important “good government” victory.

I thank you for giving me this opportunity to meet with you.