

**Prepared Statement by
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Committee on Government Reform
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Mr. Chairman, Mr. Clay, and Members of the Subcommittee:

Thank you for the opportunity to participate in today's hearing on the activities of the Bureau of Economic Analysis and the challenges BEA faces. We in the Economic Programs part of the Census Bureau collaborate with BEA in many different ways, and very frequently. While the data we collect are used by practically all federal agencies, and are closely monitored by the Federal Reserve Board, we regard BEA as our most important government customer. A high proportion of all the data we collect serves as source data for BEA. We are the principal source of the data BEA uses to develop its product side estimates of the gross domestic product. To the maximum extent possible, we at the Census Bureau try to make sure that our data gathering programs, and the improvements we make to those programs, accommodate BEA's needs.

Close collaboration between BEA and the Census Bureau means that the two agencies share a common view of the most promising opportunities for the improvement of economic statistics. Two examples of how basic data are organized illustrate this point. First, until a few years ago, the federal statistical system operated with an antiquated industry classification system – the 60-year-old Standard Industrial Classification system. In the last decade, a team established by the

Office of Management and Budget (OMB) of federal statistical agencies, with our counterparts in Canada and Mexico, designed a new, up-to-date, and flexible industry classification system. The result, the North American Industry Classification System, provides statistics profiling the American economy as it enters the twenty-first century, not as it was at the time of World War II. The Census Bureau, in cooperation with BEA and the Bureau of Labor Statistics, has led the effort to introduce the new industry classification system into federal economic statistics.

Second, while the updating of the industrial classification system represents a significant step forward, more needs to be done. Firms in manufacturing industries make specific products; firms in service industries deliver specific services. To generate the statistics that will support analysis of many economic policy issues – for example, the sources of productivity growth in the economy – data at the detailed product level are required. This is especially true for services where measuring the output of service providers is particularly difficult. Under the auspices of OMB, the Census Bureau, again in collaboration with BEA and the Bureau of Labor Statistics, is developing a product classification system that will serve as the framework for the collection of substantially more product level data than has been available in the past. The collection task will fall to the Census Bureau, but the task of putting the more abundant data to work will fall to BEA.

Of late, officials at BEA have devoted much time to measuring, describing, and putting into perspective the New Economy. Here is another area where we and our colleagues at BEA are trying to make complementary advances in economic measurement. One feature of the new economy that has attracted much attention is E-business. The Census Bureau has pioneered the

collection of official statistics on E-business, starting in late 1999 with the collection of quarterly data on retail sales made over the Internet. This was followed by collecting annual data on E-commerce activity in the manufacturing, retail, wholesale, and services sectors as part of our annual survey program. Detailed data on the E-business processes used in manufacturing plants were collected at the same time. The results of these collections have been released in recent weeks, with more results scheduled for release in May.

Our efforts at collecting data on E-business are in their early stages. The data do not illuminate all the ways that our Nation's business is increasingly being conducted via E-business. Still, our early efforts will give BEA some baseline statistics from which it can develop its own measures of the role of E-business in the economy. Looking forward, the Census Bureau believes it can contribute to further understanding of E-business by enhancing its collection of data on business purchases of information technology hardware and software – the infrastructure of E-business. Currently, the Census Bureau captures much of its data on business expenditures for plant and equipment through the Annual Capital Expenditures Survey. Without too much change, we believe this survey can be modified to pick up more specific data on E-business infrastructure, an advance that should help BEA perfect its own investment statistics – a key element in GDP. These improvements in investment statistics would certainly be welcomed by private industry.

Another feature of the new economy where BEA and the Census Bureau have a common interest in improving both the quantity and quality of data is the increasing reliance by business on leasing. Once upon a time, companies bought their plants and bought the equipment they put in the plants. Once upon a time, companies hired the workers that worked in the plants. The company, its assets, and its workforce were all under the same control. That simple world made it relatively easy to collect data about a company and its operations. Now, more and more companies are leasing their assets and leasing their employees. These changes generate questions that make collecting data more difficult. For example, who owns the assets, what are the contractual relationships between lessor and lessee, and who is claiming depreciation on the assets under what accounting rules – all questions the Census Bureau must resolve to produce good data. Who is the ultimate employer of record of a leased employee, where is his or her official place of work, who is really paying for fringe benefits, how do you avoid double counting employees – added questions that must be resolved to produce good data. The Census Bureau is devoting substantial attention to developing strategies to cope with leasing in its data collection efforts. To the extent we are successful, we should be able to give BEA better data to factor this business practice into its picture of the economy.

At the Census Bureau, our economic programs do more than give a high priority to collecting data on the use of information technology; we are employing information technology in our own collection efforts. This approach has direct consequences for the completeness and quality of the data we provide to BEA. For close to a decade we have collected some data through early stage electronic means. For example, in the 1997 Economic Census we collected data from several

hundred large retailing companies by mailing them computerized questionnaires on diskettes, which they completed and mailed back to the Census Bureau. We now hope to take the next obvious step, offering the opportunity to report over the Internet to the five million companies that we will contact directly in the 2002 Economic Census.

But simply establishing secure Internet links between millions of respondents and the Census Bureau is just the first step. Our challenge will be to develop Internet questionnaires that will give respondents high functionality – that is the ability to do lots of things with our questionnaires and to do them easily. For example, companies should be able to import data from their own company spread sheets directly into the Census Bureau Internet questionnaire. Edits should be built into the questionnaire so that respondents are alerted when they enter implausible information, such as the ever present three too many zeros. Further, to tailor our questionnaires to the peculiarities of the industry of the respondent, our plan is to offer 620 different questionnaires in both paper and Internet form.

From experience we know that the electronic collection of data pays off. For example, an increasing proportion of the data required to be filed with the government at the time goods are exported is now filed over electronic networks, including an Internet network maintained by the Census Bureau. About 50 percent of all the paper documents that were filed at the time of exporting contained at least one error. Today, the error rate for documents filed electronically runs at 5 percent. The Census Bureau devotes substantial energy to inspecting and correcting incoming data to assure the accuracy of the data we release. Clearly, the cleaner the incoming

data we receive, the more we will be able to concentrate our efforts on correcting the most troublesome data and the happier our customers, including BEA, will be.

Finally, Mr. Chairman, there are some data projects that the Census Bureau will work on as we gain in the productivity of our programs. The projects would make the data that the Census Bureau provides to BEA more useful – improved data on nonmerchant wholesalers, broader coverage of service sector industries, more timely data on capital expenditures by state and local governments, and more accurate valuation of export statistics.

Mr. Chairman, that concludes my testimony and I will be happy to answer questions.