

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

**Prepared Testimony of The Honorable Grant D. Aldonas
Before the Joint Economic Committee of the United States Congress**

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Chairman Casey, Vice Chairman Brady, and Members of the Committee, thank you for the opportunity to appear before the Committee to discuss the American Community Survey, the 2012 Economic Census, and any potential negative consequences that might flow from their elimination or de-funding. In your letter of invitation, you expressly asked for my views on the value of both surveys to business owners, public policy analysts and economic researchers relative to their cost.

By way of background, I have been involved in economic research and statistical methods, either as a practitioner or a consumer, since my first job out of college, in which I worked as a statistician on a project for the Governor's Crime Commission in my home state of Minnesota.

Since that time, I have had the opportunity to become acquainted with each of the major surveys and statistical indices developed by the federal government in my work on economic policy at the State Department and the Office of the United States Trade Representative, as Chief International Trade Counsel on the Senate Finance Committee, and, most recently, as Under Secretary of Commerce for International Trade from 2001-2005.

In that latter capacity, I oversaw the development and publication of the government's statistical work on international trade, investment and competitiveness. That offered me the opportunity to work closely with colleagues in the Commerce Department's Bureaus of Census and Economic Analysis, the Bureau of Labor Statistics at the Department of Labor, and the U.S. Customs Service and Border Protection, which collects much of the raw data that Census and the other Commerce Department agencies publish in the international area.

Since returning to private life, I have continued to be actively involved in economic research as the Scholl Chair and now Senior Adviser to the Center for Security and International Studies (CSIS). Much of my work at CSIS has focused on globalization and its impact on American firms, American workers, and U.S. competitiveness.

Economic research is also one of a suite of services offered by Split Rock International, Inc., the consultancy that I launched in 2006. My work there has included a variety of papers on economic adjustment, economic development, the impact of regulation on investment in particular sectors of the economy, and, most

recently, assessing existing measures of economic integration and their use in the context of development finance.

Those experiences have impressed on me the importance of accurate economic data and statistics to the efficient functioning of the economy and to measuring the success of economic programs enacted by Congress. I have also developed an appreciation of the insights that data collection and analysis can offer to policymakers in tackling the challenges we face at the local, state and federal level.

With that as a preface, let me turn to the questions you asked, Mr. Chairman, in your letter of invitation.

Measuring What Matters Most

In your letter, you asked for our views on the economic impact of ending or reducing funding for the American Community Survey and other government statistics. While I fully intend to address that question, I would like to start from a slightly different perspective.

First, as everyone from Lord Kelvin to Albert Einstein to Bill Hewlett to Tom Peters has said in one way or another, you get what you measure. If you are interested in growth, you should collect data that bear on factors, such as productivity, that drive growth. If you are concerned about job creation, you should collect data that focuses on the economic environment that fosters new businesses, which create the most employment. More broadly, if you are concerned about our progress toward the two most fundamental values we share – individual freedom and equality of opportunity, you should try to examine the barriers that inhibit freedom and limit equality of opportunity.

I want to touch on an area – globalization and U.S. competitiveness – that I know well to illustrate my point. Let me start with the recent figures on our current account deficit, particularly our bilateral deficit with China, both of which are growing once again. Economically, our deficit reflects the difference between our savings and investment, on the one hand, and our consumption on the other. It reflects that we are living beyond our means, more than suggesting anything about our relative competitiveness.

But, the deficit is also a function of the way we keep statistics about our trade. Three examples help explain. First, services make up roughly 75-80 percent of the U.S. economy. Many, like haircuts, are not tradable; many, like oilfield services and telecommunications are. Those that are tradable represent areas of both comparative and competitive advantage for the United States and make up an increasing share of our exports.

Here's the kicker. According to the best estimates I heard, both when I was on the Finance Committee staff and as Under Secretary of Commerce, we are, at best, consistently undercounting our services exports by 30 percent.

In a \$15.2 trillion dollar economy in which our exports represent roughly \$2.1 trillion or 13 percent of the total, that means we are consistently undercounting the size and strength of the U.S. economy by over \$200 billion. That consistent underreporting flows through everything from our national income accounts to measures of productivity to measures of the national debt ceiling and the nation's solvency.

What is true with respect to our current account deficit as a whole is also true for our bilateral deficit with China, although for different reasons. With respect to China, we not only consistently undercount our services exports, we overcount China's exports of manufactured goods to the United States. We do so because of the arcane world of customs rules of origin, which determine the origin of a good for customs purposes so that tariffs can be assessed.

Unfortunately, the customs rules of origin, which have not changed in their essence for the better part of the past century, bear almost no relationship to where the value of the good is produced in a world of global manufacturing and supply chains. My Apple iPhone offers the best example. When it enters the customs territory of the United States, my phone is deemed by the customs rules of origin to be 100 percent of Chinese origin because the final assembly in China creates a "new and different article of commerce" for customs classifications purposes.

But, in reality, over 65 percent of the value of my phone is created in the United States, including the manufacture of the most important feature of the phone, its microprocessors, which drives all of the things that make the iPhone what it is. A significant share of the remaining 35 percent of the value of my phone is created, variously, in Japan, Taiwan, Singapore and/or Malaysia. Only the remaining 8 percent or so that is the cost of final assembly is added in China.

Consider what that means. Because our statistical reporting is based on customs classification rules that belong to a bygone era, we are consistently overstating the value of Chinese exports of manufactured goods to the United States in the single largest categories of Chinese trade with the United States, consumer electronics.

Just as is the case with our services exports, getting the numbers right and providing an accurate picture of our trade with China could profoundly alter our perception of China's economic strength and our own competitiveness. That, in turn, could reshape the trade policy debate by reinforcing the point that we are, in fact, the country that is best placed to take advantage of the opportunities that a globalized, knowledge-driven economy offers.

My last example is an extension of that point. Over the past 30 years, changes in geopolitics, progressive trade and investment liberalization across the globe, and, above all, the revolution in computing, communications, transportation and logistics, have reshaped both the global economy and our own. By dramatically lowering transaction costs, globalization has fundamentally altered industrial organization and the basis of international competition.

Firms that were once vertically integrated and engaged in arm's length sales almost exclusively in their home markets have been flattened and their boundaries softened. What that means in practical terms is that independent suppliers that specialize in those tasks can now perform many of the functions that used to be performed "in house" with greater efficiency and lower cost.

Most of those suppliers are local here in the United States, but globalization has made it possible to tap a broader network of suppliers around the world. As in all things, when global supply chains became possible, they quickly became a competitive necessity, for U.S. firms as well as their competitors.

The growing share of world trade in intermediate goods reflects those changes in how industry is organized. What those statistics do not capture, however, is the profound way in which this has changed the basis of global competition.

For American firms, success in the global economy depends on access to capital, talent and ideas, as much as it does any conventional measure of market share. It also depends on understanding what your firm contributes to the value chain in your industry that ultimately serves a global, rather than strictly local, consumer market. Competitiveness in this environment requires an ability to innovate, both on the shop floor and in creating step changes in technology, which ultimately increases the value your firm contributes and the returns you can generate, both to your investors and to those the enterprise employs.

Each of those factors, taken alone, would suggest the need to focus on gathering data that would illuminate the competitive pressures that American firms and American workers face and adapt our economic policies to provide the optimal domestic economic platform for their success in the global economy. Taken together, they suggest that we should be fundamentally rethinking the way we collect and analyze economic data government-wide in order to ensure that we are offering economic policymakers, in the Congress and the executive branch, an accurate picture of the challenges that we face economically.

The best way I have found to explain the difference between where we are and where we should be in terms of the data we gather on the economy is that our current approach, including the problems I noted above, offers you as Members of Congress a picture of both the American economy and the world that is roughly 30-40 years out of date.

It helps to think about what that means in practical terms. Take the issue of corporate taxation. We have a recurring debate about transfer pricing rules and whether the internal measures used by American companies mirror the “arm’s length” sales price that would prevail in the market between two unrelated sellers.

What that reflects is that our tax code incorporates an assumption about the economic environment in which our firms and our workers compete. The basic operating paradigm in the tax code’s view is one of high transaction costs that imply vertical integration.

As noted above, however, that is not the competitive reality that American firms and American workers actually confront. Instead, they compete in a world in which low transaction costs, flatter organizations, global value chains and trans-national innovation eco-systems are the norm.

In areas like consumer electronics, for example, it may well be that the “arm’s length” price is no longer the relevant benchmark because it no longer reflects a sufficiently sizeable number of transactions to reflect anything other than a spot market price. Given that spot market prices are normally higher (often by wide margins) than the price that would prevail in markets in which arm’s length prices were the norm, the arm’s length standard would offer a more distorted guide to taxing corporate income than might have been the case 30-40 years ago.

In other words, the assumptions that lie at the core of how we collect data and measure our economy, all of which flow through to economic policy in powerful ways, are, in my view, offering you a fundamentally flawed vision of the world in which your constituents live, earn their income, and provide for their families. By the same token, properly measuring the economy and these competitive dynamics would profoundly alter our approach to economic policy, whether in our approach to taxation, our investments in education, and a number of other equally important areas.

Seen in that light, focusing on the economic impact of eliminating the ACS or reducing the funding for the 2012 Economic Census seems misplaced. My argument is not that we do not benefit from the investment we make in government statistics. It is that trying to salvage the existing surveys, while consistently ignoring the gaps between what we are measuring and the economic reality that American firms and American workers confront is a sure prescription for failure.

As my mother always told me, the surest way to get the wrong answer is to ask the wrong question. It seems to me that, at least with respect to much of what I know about where our data gathering capabilities are focused, we are asking the wrong question. We will get what we measure and, in my view, we are measuring the wrong things in light of the economic challenges we actually face.

What I would strongly urge the Committee to do, given its historic strength as a bipartisan committee producing high quality information about the economy and economic policy, is to use the opportunity that the House appropriations bill provides to launch a process that would rethink our statistical data gathering from the start to ensure that we measure what matters most.

Posing the challenge that way would alter the Committee's approach entirely. If, for example, you asked me what I would measure, I would prefer that the money we now spend on the ACS and the 2012 Economic Census be spent instead on what I would call a "freedom impact statement." Given that individual liberty lies at the core of the American experiment, I would prefer to see that we assessed the impact of any government action on an individual's freedom, much like we now do with environmental impact statements. Because equality of opportunity must always stand in equipoise to individual freedom, I would suggest a counterpart impact statement on any action's effect on equality of opportunity.

Both strike me as measures far more important than measuring changes in the average commuting time of various age groups in vehicles of one ton or more over the past thirty years, which is the sort of measure the ACS currently provides.

Value of the ACS and the 2012 Economic Census Relative to Its Costs

Turning from the issue of focus to the specifics of the ACS and the 2012 Economic Census, what makes the most sense to me is to assess the value of the two surveys, first and most importantly, to economic actors in the marketplace and, second, to you as economic policymakers.

My reasoning is as follows. The choices that economic actors in the private marketplace make ultimately shape our potential for economic growth and job creation, as well as the practical limits of the public programs we can afford. Economic data that feeds their ability to make informed choices could make a difference to the functioning of the economy, particularly to capital markets.

If the role of government is to create an environment in which those actors can shape their own economic future, however, the data that the government publishes must be directly relevant to the decisions they make.

Equally important, the actions you take as economic policymakers can shape the environment in which economic decision makers operate and shape their choices in powerful, often unintended ways. Good data about the actual challenges we face as a country should inform every decision you make as legislators and every decision made by economic policymakers at the other end of Pennsylvania Avenue.

That leaves what I am intentionally excluding from the calculus. Let me admit my bias from the start. In my view, no government data gathering, particularly when it implies bringing the full weight of the federal government and

the potential for prosecution for non-compliance to bear on individual U.S. citizens, should be done for my benefit as an economic researcher and analyst.

Just like my many friends in academia and in think tanks, I depend heavily on the information that the government publishes, although not specifically on the ACS or the 2012 Economic Census. But, I have a very hard time seeing how my stake in any government data outweighs the potential intrusion of the government into the daily lives of my fellow Americans. That moral equation does not add up for me personally.

In my view, when the government acts, even in the data it collects, it should only do so in instances in which individuals and markets are unlikely to produce the goods or services in question (i.e., market failures). Even then, government should act only where its steps will benefit the American public as a whole, as opposed to a specific sector, industry or group of individuals. The collection of data at the taxpayer's expense and at a cost of the respondents to the ACS survey or the 2012 Economic Census to serve the private interests of individuals or specific companies strikes me as the antithesis of market failure – it represents a form of rent-seeking instead.

In assessing the value of the ACS and the 2012 Economic Census to economic actors in the marketplace, the first thing that strikes you is that both surveys suffer from the limitations of any backward looking survey that rolls data up into very broad categories. One limitation from the perspective of a consumer, a home buyer, or a saver making a decision about where to invest the money in their individual retirement account is that the results of the two surveys represent the past, rather than the current economic environment in which the economic choice has to be made. A second limitation involves the samples, which are unlikely to reflect the picture of the specific industry, sector or products that would actually inform current consumer choice. The third limitation relates to the quality of information, which is simply too general to be of much use to any economic actor obliged to make a judgment on price, quality, or any of a range of other factors that would inform their decision.

While all that seems clear, I am sure the Committee is aware of a number of statements by various industry associations that affirm the relevance of the information collected as part of the ACS to their member companies. Take, for example, the National Retail Federation's ("NRF") statement in a letter to Members of the House regarding the ACS. In the letter, NRF's Senior Vice President for Government Relations, David French, said –

ACS is vitally important to the retail industry because it allows retailers to better serve their customers . . . Retailers use ACS data to make decisions on a daily basis concerning investment in new facilities, the availability of qualified workers and the need for job

training programs, the characteristics of the communities we serve, and the need for new stores.

Mr. French's statement did not offer anything in the way of facts or much in the way of supporting argument that would allow us to assess the basis of the NRF's position, but a brief thought experiment might help illuminate it. Let us ignore, for the moment, whether the retailers should foot the bill for acquiring that information, rather than imposing that cost on the taxpayer and the survey respondents and focus instead on the NRF's statement in light of the 2010 survey's results and the questions contained in the 2012 questionnaire.

One of the items the Census Bureau highlighted in its press release accompanying the 2010 results was a rise in the mean travel time to work. Since 1980, when Census first collected that information, "average travel time was just under 22 minutes, then increased to about 25 minutes in 2000, where it remained in 2009." It is difficult to say what retailers might glean from a 3 minute increase in the average commute in the two decades between 1980 and 2000, much less the fact that the average commute has remained constant over the past decade.

Much of the retail industry is driven by time to market. Retailers in the fashion market of textiles and apparel industry, for example, turn to U.S. apparel makers or operations located in nearby free trade partners like Honduras that are linked to U.S. yarn producers, rather than Chinese manufacturers, for products that can keep pace with the rapid changes in that market segment from season to season.

From that we know that time is important to the retail industry, but we can also say that the actual information contained in the ACS with respect to the increase in the average American's commute by three minutes over the thirty years since 1980 has no bearing on the actual measure – time to market – that drives productivity and profits in the retail industry.

The extra three minutes of drive time could be relevant to a radio station's pricing of advertising and the retail industry's willingness to pay for drive time radio spots. But, that raises the immediate question whether a one-minute increase in drive time per decade from 1980 to 2009 is likely to alter either the pricing strategy or purchasing decision that the two parties have to make in 2012.

In short, what was discussed above in terms of the general limitations of all surveys seems to apply to the ACS in this instance. The data it provides is unlikely to inform any decision in the market that matters.

That conclusion is worth exploring in some detail with other witnesses and representatives of industry because, in the absence of some far more persuasive showing that the data is relevant to current market choices, you would otherwise logically conclude that the cost of the ACS to taxpayers and respondents vastly

outweighs any benefit to specific economic actors, much less one that benefits the economy and our society as whole.

Let us turn to that question now with another thought experiment. Let us assume, without testing the validity of the statement, that there is great commercial value to the ACS survey to some economic actors if the right questions are asked.

As evidence of that fact, the U.S. Chamber of Commerce sent a letter to the Commerce Department expressly advocating the inclusion of questions regarding Internet sales as part of the 2013 ACS. In his letter, Bruce Josten, the Chamber's Executive Vice President for Government Affairs, stated –

Chamber members have witnessed the growth in Internet shopping in the retail sector among individuals and businesses, and feel that analyzing these trends down to the local level can help small businesses tailor their marketing to a focused group of customers.

I have a great deal of respect for Bruce and the Chamber, which have worked tirelessly in support of opening new markets for American firms, both large and small, through trade. But, even stipulating that the inclusion of the questions regarding Internet purchases would be helpful to the Chamber's small business members, we are forced to ask (1) whether the information that the Chamber wants could be provided, potentially at a far lower cost, if obtained from a private market research firm and (2) whether the benefits of providing the data that would help the Chamber's members somehow flow to society as a whole and that those benefits outweigh the costs of data collection and compliance?

The reality is that the information that Bruce and the Chamber want for their members is available from a variety of sources for a price. Indeed, an entire industry is currently dedicated to mining information about consumer choice on the Internet. Both Google's and Facebook's business models depend on that fact. Given the relative merits of more specific data that would better inform the Chamber's members' choices and the scale that private data gathering firms bring to their task, it is hard to imagine that the overall cost of the effort would be lower, in economic terms, and that the Chamber's members would be better informed if they opted to move in that direction, rather than relying on the Census Bureau to do the work for them.

That is the catch. It is, of course, in their interest to have Census collect the data and distribute it at zero or marginal cost to any of the Chamber's members because it allows them to avoid the cost that they would otherwise face in acquiring the information from private data firms. Having Census do the collection, particularly with the full force of the U.S. government and the legal penalties that attach to non-compliance reinforcing that effort, allows the cost and burden to be shifted to the taxpayers and respondents.

Interestingly enough, that logic applies with equal force to the 2012 Economic Census, even though the targets of the requests for information are businesses themselves. The likelihood of being a respondent is low for any individual Chamber member. Except in that circumstance, the cost of the individual Chamber member acquiring the data that the Census survey produces is zero, or nearly so, even taking all of the transaction costs into account. Seen in that light, the value proposition of lobbying for the taxpayers and respondents to bear the cost still holds.

What that thought experiment illustrates is that the costs and benefits of the ACS and the 2012 Economic Census depend heavily on how you see the government's role. One pointed way of putting the question is from an individual taxpayer's perspective.

I asked myself how, living in Arlington, Virginia, I would assess the choice my congressman, Representative Jim Moran, and my two senators, Senators Jim Webb and Mark Warner, will be asked to make. Would I tell them to ignore the cost to taxpayers, the relative intrusiveness of the collection methods, and the existence of alternative, less intrusive methods of acquiring the information from private firms, particularly when the benefits of the data collected by Census would flow largely to specific beneficiaries, rather than to the economy and society as a whole? Or, would I ask them to take those factors into account, try to minimize the cost and burden imposed, and try to ensure that the benefits extended to the broadest possible group as practicable?

I would certainly urge them to take the second route. What I would strongly urge the Committee to do is fundamentally rethink both the ACS and 2012 Economic Census from that perspective. First, I would suggest that you explore whether there were alternatives available that would eliminate the need for the surveys, in whole or in part. Given the amount of information currently available from private sources that is likely to prove more current than the surveys, you might find that alternatives to the Census surveys actually improved the quality of the choices economic actors would make in the marketplace and the choices you would make as economic policymakers.

Second, where there is no alternative to the government collecting the data, I would recommend that you explore whether the government could acquire such information by other, less costly and less intrusive means. Here, some examples to help make the point.

Personal Questions 26-28 from the 2012 ACS questionnaire ask whether the respondent has "ever served on active duty in the U.S. Armed Forces, military Reserves, or National Guard," when the respondent served, and whether the respondent has a Veterans Administration ("VA") service-connected disability rating. This is information that the government already has on the rolls at the VA. The question might reasonably be asked why Census must gather this in a survey if

the information could just as easily be requested via an email from the Secretary of Commerce to the Secretary of Veterans Affairs.

Similarly, Personal Question 41 of the ACS asks the respondent to report various categories of income earned over the past 12 months. As it relates to “wages, salary, commissions, bonuses or tips from all jobs,” the questionnaire instructs the respondent to “Report amount before deductions for taxes, bonds, dues, or other items.” What is particularly interesting about this question is that it expressly acknowledges that the respondent is otherwise obliged to report the information to the Internal Revenue Service (“IRS”) and the Census is instructing the respondent to provide what the IRS would call “gross income,” rather than “taxable income.” One might reasonably ask why, if the government has already compelled the information under penalty of law for failing to file a tax return and for making false statements on a tax return that the Census must separately compel the information from the same respondent and why, if privacy of tax return information is a concern, Congress could not adequately address that concern just as it now does with respect to the information provided separately to the two agencies?

Third, I would definitely suggest that you ask Census to reassess the reasons for asking for certain information with a view to limiting the cost and burden of reporting in those instance in which no alternative to a survey is available from either private or public sources. Again, examples help.

Today, as important as agriculture is to our economy, particularly to individual states and localities, it now makes up less than 1 percent of the U.S. GDP and employs less than 2 percent of all employment. Much of our agriculture sector is made up of large, capital-intensive, highly mechanized farms. In light of those facts, one might reasonably ask what Census is likely to gain from asking, as it does in Housing Question 5, for the respondent to provide “the actual sales of all agricultural products” from the respondent’s residential property in the past 12 months?

The point of asking those questions is not to suggest that the ACS and the Economic Census do not produce a wealth of data that may hold value in some form for my many friends in both business and the economics profession. Rather it is to suggest that even the most ardent advocates of the two surveys would have to concede that there are instances in which the cost to the taxpayer of distributing, collecting and analyzing the questionnaires, coupled with the relative intrusiveness of the questions and the cost to respondents of compliance, greatly outweighs the value of the information both surveys provide to our country and our society as a whole.

Thank you.