

**Testimony of  
Kathleen B. Cooper, Commerce Under Secretary for Economic Affairs  
Before the House Government Affairs Subcommittee on  
Government Efficiency, Financial Management, and Intergovernmental Relations  
Tuesday, September 17**

Chairman Horn, members of the Subcommittee. I am pleased to be with you to discuss H.R. 5215, the Confidential Information Protection and Statistical Efficiency Act of 2002.

Chairman Horn, thank you for your leadership on this issue over the years.

As the Under Secretary for Economic Affairs at the Commerce Department, I have the privilege of over-seeing the outstanding work of two of the jewels of the federal statistical system, the Bureau of Economic Analysis (BEA) and the Census Bureau.

Our economic statistics are calculated by experts and professionals, who produce the most accurate numbers possible with the tools available to them.

The President has made enhancing our economic data a priority and wants to give the bureaus the tools they need to measure the 21<sup>st</sup> century economy. He appreciates that better information is fundamental to better public and private decision making.

With the President's budget request for the Census Bureau and BEA, you will see a range of economic data sooner – the release of international trade data, for example, will be moved up by 20 days. We plan to implement an annual measure of investment in information technology and quarterly measures of the services sector – the first new indicator in 50 years.

Unfortunately, while these agencies are striving to improve economic statistics, the FY 2003 funding level approved by Senate appropriators is significantly below the President's request. We simply will not be able to undertake these important improvements with the Senate's flat funding level.

But today, I would like to discuss one way to improve our federal statistics at next to no cost. If enacted this legislation will help us improve the measurement of inventories – one of the most volatile component of GDP. We will develop more efficient samples, reduce the reporting burden, improve regional and state data, and reduce revisions.

I'd like to share with you some real-life examples of gaps in our federal statistical system and that the data sharing bill would close.

Most of BEA's data comes from elsewhere – the Census Bureau and the Bureau of Labor Statistics (BLS) being the main building blocks of BEA products.

The Census Bureau, BLS, and BEA already work hand in hand. BEA is the Census Bureau's most important customer and the two agencies are in contact every day. The staffs at BLS and the Census Bureau meet routinely with their counterparts at BEA. Throughout the year, managers collaborate and ensure that our statistical infrastructure is efficient and productive.

However, H.R. 5215 would allow BEA, the Census Bureau, and BLS to work even more efficiently together, to share knowledge and to borrow strengths.

The most important result of H.R. 5215 would be the consistent classification of businesses by the Census Bureau and BLS. BEA would be the first to stand and cheer such an accomplishment. A limited research study compared Census Bureau and BLS business lists. Thirty percent of single-establishment firms had been assigned different industry codes. In other words, the Census Bureau and BLS place one third of businesses in different boxes. And BEA has to sort out the resulting data.

In determining real output for example, BEA looks at shipments from Census and prices from BLS and must untangle the classification confusion. With the data-sharing bill, the statistical agencies could cross validate their company lists, and determine the most appropriate classification.

By comparing corporate financial reports with BLS and Census surveys, BEA can improve estimates of profits and wages and salaries. This would help to reconcile the \$150 billion statistical discrepancy between Gross Domestic Income and Gross Domestic Product.

At the end of July, we saw large revisions to profits that indicated that corporate profits had peaked in 1997 rather than 2000 and that other incomes were weaker than earlier estimated. If BEA were able to access the firm-level data from the Census Bureau then it could compare that information with corporate return data from the Internal Revenue Service (IRS) and publicly released financial reports. In this way, BEA could better capture the impact of corporate activity where there is a difference between tax and financial accounting methods.

I would like to see an improvement in the accuracy of state personal income. For the year 2000, estimates of growth in payroll for Delaware vary from six to 14 percent, for Virginia from five to 10 percent, and Washington State from six to 12 percent. Even for New York, where the differences in growth are smaller, the difference in dollars is over \$7 billion in wages or \$380 million in state and local taxes for the state.

Amid the dynamic economy, how can our statistical agencies keep track of businesses that come and go? The Census Bureau and BLS have different sources of information that provide insight

into company births and death. Combining the two measures should give us better information than from either source alone.

Other legislation under Congressional consideration would allow the agencies limited access to IRS data. Today, Census and BEA have access to different sets of tax data. Enhanced access to IRS material would allow BEA to make its measure of corporate profits and other business income all the more accurate.

This bill also builds on the agencies unmatched record of confidentiality. Title 1 provides consistent standards and penalties that will boost the public confidence in our federal statistical programs, prompt better and more complete answers from our respondents and consequently, deliver higher quality data. Title 2 is limited to data on businesses and excludes the sharing of personal information. It provides equally stringent protection for all data and avoids any perception of inappropriate use.

Finally Mr. Chairman, I would like to alert you to a concern I have about the most basic step in our data gathering -- voluntary participation in our surveys.

In April, reporting by large semiconductor companies in the Census Bureau's monthly survey of manufacturing activities dropped to the point where the Bureau had to discontinue publishing data on semiconductors. As a result, the Census Bureau can no longer produce bellwether sales and inventory data for this important industry. The Census Bureau and the semiconductor industry have agreed to a test to determine whether the industry can provide the desired data. Results will not be known for five months and in the meantime gaps in our data persist.

We will continue to work with businesses to find efficient means for them to report. Ultimately, Congress and the Administration must encourage participation that yields information vital to informed decision making.

Thank you, Mr. Chairman. I appreciate your efforts to improve the quality and efficiency of our nation's statistics while protecting the confidentiality of data providers. And I would be happy to take the subcommittee's questions at the appropriate time.